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CEC-COILS®
CEC INTERNATIONAL HOLDINGS LIMITED
CEC 國際控股有限公司*
(Incorporated in Bermuda with limited liability)
 (Stock Code: 759)

2014/2015 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of CEC International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 31 October 2014 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		31 October	
	<i>Note</i>	2014	2013
		HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
Revenue	2	1,137,872	857,786
Cost of sales		<u>(775,866)</u>	<u>(601,745)</u>
Gross profit		362,006	256,041
Other loss, net		(1,086)	–
Selling and distribution expenses		(254,922)	(159,305)
General and administrative expenses		<u>(74,697)</u>	<u>(71,397)</u>
Operating profit	3	31,301	25,339
Finance income		20	16
Finance costs		<u>(8,977)</u>	<u>(7,557)</u>
Finance costs – net	4	<u>(8,957)</u>	<u>(7,541)</u>
Profit before taxation		22,344	17,798
Taxation	5	<u>(5,068)</u>	<u>(4,754)</u>
Profit attributable to equity holders of the Company for the period		<u>17,276</u>	<u>13,044</u>
Earnings per share, basic and diluted	6	<u>2.59 cents</u>	<u>1.96 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	31 October	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	17,276	13,044
Other comprehensive income – items that have been or may be reclassified to profit or loss		
Change in fair value on available-for-sale financial assets	45	(357)
Realisation of investment revaluation reserve upon disposal of available-for-sale financial assets	(387)	–
Currency translation differences	603	4,151
	<hr/>	<hr/>
Other comprehensive income for the period	261	3,794
	<hr/>	<hr/>
Total comprehensive income for the period	17,537	16,838
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 October 2014 <i>HK\$'000</i> (Unaudited)	As at 30 April 2014 <i>HK\$'000</i> (Audited)
ASSETS			
Non-current assets			
Land use rights		19,922	20,173
Property, plant and equipment		520,025	502,163
Investment properties		81,460	81,460
Available-for-sale financial assets		242	9,120
Prepaid rent on operating lease		73,541	61,280
Deposits paid for acquisition of property, plant and equipment		8,376	3,636
Deferred tax assets		2,194	2,194
		705,760	680,026
Current assets			
Inventories		286,107	218,516
Accounts and bills receivable	8	82,181	86,402
Deposits, prepayments and other receivables		61,325	42,509
Pledged bank deposits		46,530	30,906
Cash and cash equivalents		84,142	79,479
		560,285	457,812
Total assets		1,266,045	1,137,838
EQUITY			
Share capital		66,619	66,619
Reserves			
Proposed final dividend		–	4,663
Others		479,242	461,705
Total equity		545,861	532,987
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		229	633
Provision for reinstatement cost		7,358	6,628
		7,587	7,261
Current liabilities			
Borrowings	9	586,754	499,085
Accounts payable	10	29,400	23,770
Accruals and other payables		79,945	63,559
Taxation payable		16,498	11,176
		712,597	597,590
Total liabilities		720,184	604,851
Total equity and liabilities		1,266,045	1,137,838
Net current liabilities		(152,312)	(139,778)
Total assets less current liabilities		553,448	540,248

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 April 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

At 31 October 2014, the Group’s current liabilities exceeded its current assets by approximately HK\$152,312,000 mainly as a result of (i) a portion of the bank borrowings contractually due for repayment after one year that contain a repayment on demand clause amounting to approximately HK\$81,083,000 have been classified as current liabilities in accordance with the HK Interpretation 5, “Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause”; and (ii) new additions to the Group’s non-current assets of approximately HK\$70,029,000 for the six months ended 31 October 2014, which was financed mainly by the Group’s internal fundings and short-term borrowings.

The directors closely monitor the Group’s financial performance and liquidity position. They have prepared cash flow projection of the Group for the coming twelve months by taking into account all information that could reasonably be expected to be available including, among others, that it is not probable that the relevant banks will exercise its discretion to demand immediate repayment. The directors believe that the bank borrowings will be repaid in accordance with the scheduled dates set out in the relevant loan agreements and that the banking facilities with the principal banks will be renewed when their current terms expire given the good track records and relationship the Group has with the banks. Under these circumstances, the directors are of the opinion that the Group will have adequate financial resources to support its operations and will be able to meet its liabilities as and when they fall due within the next twelve months and therefore have prepared the Interim Financial Statements on a going concern basis.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 April 2014, as described in those annual financial statements.

In the current period, the Group has also adopted the following new standards and amendments to standards issued by the HKICPA which are mandatory and relevant to the Group’s operations for the accounting period beginning on 1 May 2014. The adoption of these new standards and amendments to standards has no material impact on the Group’s results and financial position.

HKAS 32 (Amendment)	Presentation – offsetting financial assets and financial liabilities
HKAS 36 (Amendment)	Impairment of assets – recoverable amount disclosures
HKAS 39 (Amendment)	Recognition and measurement – novation of derivatives
HKFRS 10, 12 and HKAS 27 (Amendments)	Consolidation for investment entities
HK(IFRIC)-Int 21	Levies

The following new standards and amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 May 2014 and have not been early adopted:

HKAS 16 and HKAS 38 (Amendment)	Classification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendment)	Bearer plants
HKAS 19 (Amendment)	Defined benefits plan
HKAS 27 (Amendment)	Equity method
HKFRS 9	Financial instruments
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture
HKFRS 11 (Amendment)	Accounting for acquisitions of interest in joint operations
HKFRS 14	Regulatory deferral accounts
HKFRS 15	Revenue from contracts with customers
Annual improvement project	Annual improvement 2010-2012 cycle
	Annual improvement 2011-2013 cycle
	Annual improvement 2012-2014 cycle

The Group is in the process of making an assessment on the impact of these new standards and amendments to existing standards but does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position taken as a whole. The Group intends to adopt the above new/revised standards and amendments to existing standards when they become effective.

2. SEGMENT INFORMATION

The Executive Directors of the Group ("management") review the Group's internal reports periodically in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group has three reportable segments, namely (i) Retail business;(ii) Electronic components manufacturing and (iii) Investment property holding. Segment information provided to management for decision-making is measured in a manner consistent with that in the Interim Financial Statements.

	Retail business		Electronic components manufacturing		Investment property holding		Eliminations		Total	
	Six months ended 31 October		Six months ended 31 October		Six months ended 31 October		Six months ended 31 October		Six months ended 31 October	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
External sales	970,975	638,373	165,443	218,207	1,454	1,206	-	-	1,137,872	857,786
Intersegment sales	-	-	-	-	792	761	(792)	(761)	-	-
	<u>970,975</u>	<u>638,373</u>	<u>165,443</u>	<u>218,207</u>	<u>2,246</u>	<u>1,967</u>	<u>(792)</u>	<u>(761)</u>	<u>1,137,872</u>	<u>857,786</u>
Segment results										
Operating profit	32,630	27,045	1,657	1,856	630	534			34,917	29,435
Corporate expenses									(3,616)	(4,096)
Finance costs – net									(8,957)	(7,541)
Profit before taxation									22,344	17,798
Taxation									(5,068)	(4,754)
Profit for the period									<u>17,276</u>	<u>13,044</u>
Depreciation and amortisation	<u>25,507</u>	<u>13,854</u>	<u>8,466</u>	<u>13,319</u>	<u>-</u>	<u>7</u>			<u>33,973</u>	<u>27,180</u>
Distribution expenses and administrative expenses	<u>297,572</u>	<u>192,989</u>	<u>27,698</u>	<u>32,952</u>	<u>733</u>	<u>665</u>			<u>326,003</u>	<u>226,606</u>
Additions to non-current assets (other than financial instruments)	<u>69,529</u>	<u>44,144</u>	<u>500</u>	<u>1,120</u>	<u>-</u>	<u>-</u>			<u>70,029</u>	<u>45,264</u>
	Retail business		Electronic components manufacturing		Investment property holding		Eliminations		Total	
	As at 31/10/2014	As at 30/4/2014	As at 31/10/2014	As at 30/4/2014	As at 31/10/2014	As at 30/4/2014	As at 31/10/2014	As at 30/4/2014	As at 31/10/2014	As at 30/4/2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	775,751	653,769	413,850	407,743	82,040	82,188	(7,901)	(8,259)	1,263,740	1,135,441
Unallocated assets										
– Deferred income tax									2,194	2,194
– Corporate assets									111	203
Total assets									<u>1,266,045</u>	<u>1,137,838</u>
Segment liabilities	74,587	61,724	41,821	32,095	7,773	8,135	(7,901)	(8,259)	116,280	93,695
Borrowings									586,754	499,085
Unallocated liabilities										
– Deferred income tax									229	633
– Taxation payable									16,498	11,176
– Corporate liabilities									423	262
Total liabilities									<u>720,184</u>	<u>604,851</u>

Geographical information

	Revenue		Non-current assets	
	Six months ended		As at	
	31 October		31/10/2014	
	2014	2013	31/10/2014	30/4/2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC (including the Hong Kong Special Administrative Region)	1,086,090	793,659	705,670	679,922
Other regions	51,782	64,127	90	104
	1,137,872	857,786	705,760	680,026

Revenue by geographical location is determined on the basis of the destination of shipment or place of sales to the customers.

Non-current assets by geographical location are determined based on the location of the relevant assets.

3. OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended	
	31 October	
	2014	2013
	HK\$'000	HK\$'000
Amortisation of land use rights	272	272
Cost of inventories recognised as expenses included in cost of sales	680,223	506,030
Depreciation of property, plant and equipment	33,701	26,908
Employee benefit expenses (including directors' emoluments)	166,467	149,268
Provision for impairment of accounts receivable	1,125	859
Gain on disposal of available-for-sale financial assets	(387)	—

4. FINANCE COSTS – NET

	Six months ended 31 October	
	2014	2013
	HK\$'000	HK\$'000
Interest expense on bank borrowings (<i>Note</i>)		
– wholly repayable within five years	8,554	7,048
– not wholly repayable within five years	423	509
	<hr/>	<hr/>
Finance costs	8,977	7,557
Interest income from bank deposits	(20)	(16)
	<hr/>	<hr/>
	8,957	7,541
	<hr/> <hr/>	<hr/> <hr/>

Note: The classification by repayment period is based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

5. TAXATION

Income tax expense is recognised based on management's estimate of the annual income tax rate expected for the full financial year. The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2035. Hong Kong profits tax has been provided at the estimated rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax rate at the estimated rate of 25% (2013: 25%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

The amount of taxation charged to the condensed consolidated income statement represents:

	Six months ended 31 October	
	2014	2013
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current tax	5,339	4,888
Overseas taxation including Mainland China		
– current tax	133	86
Deferred taxation	(404)	(220)
	<hr/>	<hr/>
	5,068	4,754
	<hr/> <hr/>	<hr/> <hr/>

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 31 October 2014 is based on the consolidated profit for the period of approximately HK\$17,276,000 (2013: HK\$13,044,000) and the weighted average number of 666,190,798 (2013: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2014 and 31 October 2013, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

7. DIVIDEND

The Board resolved not to declare any interim dividend in respect of the six months ended 31 October 2014 (2013: Nil).

8. ACCOUNTS AND BILLS RECEIVABLE

	As at 31 October 2014 <i>HK\$'000</i>	As at 30 April 2014 <i>HK\$'000</i>
Bills receivable	7,744	14,424
Accounts receivable	82,091	78,506
Less: provision for impairment of receivables	(7,654)	(6,528)
	<hr/>	<hr/>
Amounts and bills receivable – net	82,181	86,402
	<hr/> <hr/>	<hr/> <hr/>

The ageing analysis of accounts receivable is as follows:

	As at 31 October 2014 <i>HK\$'000</i>	As at 30 April 2014 <i>HK\$'000</i>
0-30 days	49,588	42,790
31-60 days	13,545	18,257
61-90 days	7,334	8,738
91-120 days	3,695	2,984
Over 120 days	7,929	5,737
	<hr/>	<hr/>
	82,091	78,506
Less: provision for impairment of receivables	(7,654)	(6,528)
	<hr/>	<hr/>
	74,437	71,978
	<hr/> <hr/>	<hr/> <hr/>

The Group performs on-going credit and collectability evaluation of each customer. The Group offers an average credit period ranging from 30 to 120 days to its customers.

9. BORROWINGS

As at 31 October 2014, bank borrowings of approximately HK\$81,083,000 (at 30 April 2014: HK\$97,968,000) contractually due for repayment after one year but contain a repayment on demand clause have been classified as current liabilities in accordance with the HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause".

10. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	As at 31 October 2014 <i>HK\$'000</i>	As at 30 April 2014 <i>HK\$'000</i>
0-30 days	21,508	20,413
31-60 days	5,445	2,443
61-90 days	1,875	641
91-120 days	404	64
Over 120 days	168	209
	<hr/> 29,400 <hr/>	<hr/> 23,770 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

General overview

For the six months ended 31 October 2014, the Group recorded total revenue of HK\$1,137,872,000 (2013: HK\$857,786,000), representing a growth of about 33% compared with the same period of last year. Over the period, the consolidated gross profit was HK\$362,006,000 (2013: HK\$256,041,000), representing a rise of 41% than the same period of last year, and the consolidated gross profit margin was 31.8% (2013: 29.8%), increasing 2.0 percentage points than last year. The uplift of consolidated revenue, gross profit and gross profit margin were mainly driven by the growth of retail business. Over the period under review, revenue from retail business “759 STORE” accounted for 85.3% (2013: 74.4%) of the total revenue, while revenue from the coil manufacturing business dropped to about 14.5% (2013: 25.4%).

Over the period under review, selling and distribution expenses and general and administrative expenses of the Group were HK\$254,922,000 (2013: HK\$159,305,000) and HK\$74,697,000 (2013: HK\$71,397,000) respectively. The increase of selling and distribution expenses was those incurred from shops rental expense, frontline staff salary and related logistics cost for retail business expansion. Over the period under review, the rise of general and administrative expenses was controlled at about 4.6%. Driven by the growth of retail business, an operating profit of HK\$31,301,000 (2013: HK\$25,339,000) was recorded over the period. Consolidated profit increased approximately 32% to HK\$17,276,000 (2013: HK\$13,044,000).

Retail business

As at 31 October 2014, the Group has 226 (2013: 159) 759 STORE branches in operation, the number of branches increased by 42% in terms of percentage. Segmental revenue of retail business was HK\$970,975,000/77,711,619 packs (2013: HK\$638,373,000/54,921,246 packs), representing an increase of about 52.1% than that in the same period of last year. Percentage increase in revenue was also greater than that in the total number of branches run then. Over the period under review, gross profit of retail business alone was HK\$330,202,000 (2013: HK\$220,034,000), and its gross profit margin was 34.0% (2013: 34.5%), slightly lowering 0.5 percentage point than that in last year. Segmental operating profit was HK\$32,630,000 (2013: HK\$27,045,000) over the period under review. Segmental operating profit margin was 3.4% (2013: 4.2%), declining about 0.8 percentage point than that in last year, which was mainly attributed to the increase of rental expense and distribution cost.

759 STORE aims at providing services to the neighbourhood, offering more choices to meet their needs in everyday life. Most of the branches locate in residential area, widely spreading into public and private housing estates in Hong Kong Island, Kowloon and the New Territories at the shopping malls thereof or on the streets nearby. Over the period under review, shop rental expense increased along with the rise of the number of shop to HK\$101,078,000 (2013: HK\$60,911,000), representing about 10.4% (2013: 9.5%) of retail business revenue, increasing 0.9 percentage point than that in

last year. These figures reflected not only a rising trend in rental level but also a trend that retail points becoming dense gradually, in which overlapping on shop locations might occurred. This situation had been well noted by the management and not gone beyond the management's estimation. In the period under review, the Group increased new retail points, trying to open specialty stores with different themes including 759 KAWAILAND, 759 STORE Frozen Market, 759 STORE Household Market, 759 STORE Supermarket and 759 SKYLAND (a fine-item shop opened in December 2014), so as to cope with the various needs of customers in adjacent area and provide more leisure spots to customers so that the sales of other shops could be improved. Diversified store themes, on one hand, will facilitate procurement team to explore and import more variety products. On the other hand, it provides more flexibility in retail operation thus allowing us to seek for more suitable locations from landlords. For shop area, internal analysis on operation data revealed that, shops of much greater floor areas could provide customers much more spacious and comfortable shopping and leisure environment, increasing the number of product categories and items so that our customers could have much wider variety of products to choose. The Group would continue to look actively for the shop units of greater floor area and lower average square feet rent since the percentage taken by shop rent on shop revenue was obviously lower in that of middle-sized and large-sized shop than that in average. As at 31 October 2014, total gross floor area of the Group's branches was about 378,000 sq ft (2013: 203,000 sq ft), while the average branch gross floor area was about 1,673 sq ft (2013: 1,276 sq ft).

The Group adopts a parallel import mode in container unit. 759 STORE newly added more product type for customers' selection, including frozen food, cosmetics, baby product, toys, fashion items and etc. The number of product items sold in the period under review was about 15,000 types (2013: 6,200 types). Much wider variety of products was available for customer's selection when compared with that in last year. By category, snacks still took the greatest share in the total retail sales amount for around 39% (2013: 49%). The shares of other categories were ranked in descending order as follows: beverages, grocery food items, frozen food, noodles, seasonings, cosmetic products, personal care products, household supplies, wine and beer, and baby products. The weighting of grocery food items, household and personal care products showed a rising trend since average shop floor area and the number of branches reaching mini-supermarket size had increased. Place of origin extended to 61 countries and regions (2013: 43). In terms of sales amount, Japan took the greatest share for about 43% (2013: 59%). The shares of other regions were ranked in descending order as follows: Europe, Korea, Taiwan, Southeast Asia, Americas and other regions.

The Group always sees human resources as an important aspect, believing that only reasonable salary level can provide staff in every level pleasant life to enjoy their work, working hard to provide satisfactory service to vast customers. Over the review period, salary and allowance of frontline staff accounted for about 7.7% (2013: 8.2%) of segmental revenue. Compared with the same period of last year, the salary level of frontline staff on average increased by 6.7%. The number of frontline staff per

branch on average in the same period was 3.9 (2013: 4.1), better than that in last year, reflecting that the increase of average shop floor area and the introduction of salary system had benefited the retail business. Salary and allowance of back office and managerial staff during the review period accounted for about 3.6% (2013: 4.5%) of segmental revenue, lowering 0.9 percentage point than that of last year even under the expansion of business scale. It relies on the effort of staff in all levels who runs their jobs according to workflow in highly smooth way, closely following the pace of the business that grows continuously. On the other hand, much of secretarial and supportive work had successfully transferred to Zhongshan head office, greatly easing the heavy work pressure in Hong Kong office.

“759 STORE” is a retail chain given birth by “COILS ELECTRONIC CO., LIMITED”. The Group considered in last year that 759 STORE might be in lack of traditional wisdom in retail business. Being innocent about the common practice in local retail industry, the Group were once in great doubt of whether 759 STORE could stand firm in this highly competitive retail market. In this connection, the Group attempted to introduce some management models of large retail group into the business in last year. However, confusions in thought emerged during implementation, causing serious internal conflicts which showed that these management models could not match well with the original corporate culture and style of 759 STORE. If large retail group’s management mechanism irrationally applied on 759 STORE, those mechanism would not only seem too big to operate, 759 STORE would but also lose its quick reaction and flexibility, which had been well established in years of operation as small and medium-sized business. In light of this concern, the founder decided to adopt again the Group’s original industrial development thinking to run the business, not to introducing the management mechanisms which were suitable for large corporations. For managerial staff, the Group would put the core managerial staff of original coil business in important position, providing training and opportunity to internal staff to participate the management in operation.

Electronic components manufacturing business

The business first established by the Group is electronic component manufacture, of which its coil products are widely applied in electronic products and electric appliances in various fields such as mobile communication equipments, lighting products, household appliances, computers and its peripheral products, power supply devices.

Over the period under review, the Group continued to reduce its business scale in an orderly manner, streamline its structure, as well as centralize resources and production capacity to provide service and support for its international clients of years partnership in the electronic industry. In the period under review, segmental revenue from the manufacturing business was HK\$165,443,000 (2013: HK\$218,207,000), lowered 24.2% than last year. Nevertheless, the Group has been gradually reducing the cost and administrative expense of the manufacturing business over the past few years which resulted in segmental gross profit margin amounting to 18.4% (2013: 16.0%), representing an increase of 2.4 percentage points than last year. Segmental operating

profit was HK\$1,657,000 (2013: HK\$1,856,000), which was slightly decreased of about HK\$199,000 compared with the same period of last year. The accounts receivable turnover day was 88 days (30 April 2014: 89 days), while the inventory turnover day was 116 days (30 April 2014: 107 days). During the period, the Group has endeavored to downsize and streamline the organization structure. As at 31 October 2014, the total number of production staff was 1,602 (2013: 2,145). The Group would like to extend its deepest gratitude to all staff of the factory for their unfailing efforts in driving the manufacturing business towards the target of soft-landing under such unpleasant market condition.

Investment property

For the six months ended 31 October 2014, rental income of the Group amounted to HK\$1,454,000 (2013: HK\$1,206,000).

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2014, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK\$130,672,000 (30 April 2014: HK\$110,385,000). As at 31 October 2014, the Group had aggregate banking facilities (excluding that of foreign exchange derivative financial instrument) of HK\$806,886,000 (30 April 2014: HK\$609,325,000) for overdrafts, loans, trade financing, factoring of accounts receivable, etc. Unused facilities as at the same date amounted to approximately HK\$214,896,000 (30 April 2014: HK\$98,431,000). At 31 October 2014, the utilized banking facilities amounting to HK\$591,990,000 were secured by charges on the Group's certain land and buildings, investment properties, pledges of the Group's accounts receivable, bank deposits and available-for-sale financial assets. In addition, the Group is required to comply with certain restrictive financial covenants imposed by the major financing banks. As at 31 October 2014, the Group could comply with such financial covenants.

As at 31 October 2014, the Group borrowed HK\$586,754,000 (30 April 2014: HK\$499,085,000) from a number of banks, representing an increase of approximately 17.6%. The increase in borrowing was mainly attributed to the increased number of retail shops, the related equipments and facilities for sales of frozen food, and the purchase of warehousing units. As at 31 October 2014, the Group's gearing ratio* was 0.46 (30 April 2014: 0.42), which slightly increased from that of the last financial year end. In addition, the Group did not have any contingent liabilities on the same date (30 April 2014: Nil).

(* *The ratio of (total borrowings less bank balances and cash) over (total borrowings less bank balances and cash plus total equity)*)

Assets

As at 31 October 2014, inventory of the Group was HK\$286,107,000 (30 April 2014: HK\$218,516,000). Total inventory recorded an increase of 31% comparing with last financial year end date, which is close to the revenue growth of 33%. The Group paid great effort in maintaining the inventory level effectively to reduce working capital pressure and minimize storing obsolescent inventory that could incur loss. Total prepayments, deposits and other receivables (including rental deposits of retail shops) of the Group as at 31 October 2014 also increased in line with the expansion of 759 STORE retail network, reaching HK\$134,866,000 (30 April 2014: HK\$103,789,000).

For accounts receivable, given all incomes from retail business were settled by cash, Octopus card and credit card, net accounts receivable of the Group contributed by electronic components manufacturing business as at 31 October 2014 was HK\$74,821,000 (30 April 2014: HK\$80,582,000), decreasing by 7% than last financial year end date and the fall was mainly attributed to shrinkage of manufacturing business. The Group shall austere control the accounts receivable and will adopt a more prudent credit policy. The industrial manufacturing market was clouded by various uncertainties; the Group shall carefully examine customers' orders. Although adoption of a stern credit policy will inevitably result in the vanish of some orders, with the present electronic components profit margin, the first priority of manufacturing business is to lower business risk.

Interest expense

In light of our business growth and increase on borrowings, interest expense of the Group amounted to HK\$8,977,000 for the six months ended 31 October 2014 (2013: HK\$7,557,000), representing an increase of HK\$1,420,000 as compared with same period of last year.

Financial resources and capital structure

For the six months ended 31 October 2014, the Group's net cash inflow was HK\$3,066,000 (2013: HK\$9,050,000). Net cash outflow from operating activities was HK\$5,460,000 (2013: net cash inflow of HK\$27,453,000). Compared with the same period of last year, the rise of cash outflow from operating activities was attributed to the increase of inventory in response to the expansion of business scale. Deposits and prepayment also went up following the opening of more new shops. At the same time, net cash outflow from investing activities was HK\$49,237,000 (2013: HK\$33,137,000). Over the period under review, the capital expenditure used for purchasing properties for self-use was HK\$13,625,000 (2013: HK\$8,477,000), making overall capital expenditure increased to HK\$53,028,000 (2013: HK\$32,587,000). Capital expenditure for retail business was related to shop fitting-out, equipment configuration, showcasing frozen food, warehouse and logistics equipment, amounting to about HK\$38,184,000 (2013: HK\$23,000,000). Capital expenditure for manufacturing business over the period was suppressed to extreme lows to approximately HK\$500,000 (2013: HK\$1,120,000). Over the period under review, the growth of retail business gained the full support from financing bank's loan, net cash inflow from financing activities was HK\$57,763,000 (2013: HK\$14,734,000).

<i>Cash Flow Summary</i>	For the six months ended 31 October	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	(5,460)	27,453
Net cash outflow from investing activities	(49,237)	(33,137)
Net cash inflow from financing activities	57,763	14,734
	<hr/>	<hr/>
Increase in cash and cash equivalents	<u>3,066</u>	<u>9,050</u>

As at 31 October 2014, the net current liabilities was HK\$152,312,000 (30 April 2014: HK\$139,778,000) and the current ratio was 0.79 (30 April 2014: 0.77). It included pledged loans of approximately HK\$119,586,000 (HK\$38,503,000 repayable within one year; HK\$81,083,000 repayable after one year). Such loans due for repayment after one year but contain a repayment on demand clause amounting to approximately HK\$81,083,000 have been classified as current liabilities in accordance with the HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause". Besides, new additions to the Group's non-current assets (including fixed assets and rental deposit on new retail shops) of approximately HK\$70,029,000 for the six months ended 31 October 2014 were due to the expansion of retail business scale. After taking the available banking facilities into account, the Board of Directors considered that the Group has sufficient working capital at this moment to cover the need for business development of the Group.

Charges on Assets

As at 31 October 2014, certain assets of the Group with an aggregate carrying value of approximately HK\$378,280,000 (30 April 2014: HK\$371,890,000) were pledged to secure banking facilities of the Group.

Exchange Risks

The Group's business is mainly conducted in Hong Kong, Mainland China and South-east Asia. The major revenue currencies are primarily denominated in Hong Kong dollar, Renminbi and United States dollars; whilst the major currencies in purchase commitments and operation costs are primarily denominated in Hong Kong dollar, Renminbi, United States dollars, Euro and Japanese Yen. The Group will endeavour to use forward contracts to hedge potential foreign exchange fluctuation if necessary. If Japanese Yen has a remarkable appreciation, there will be impact on the Group's cost. In this connection, the Group will closely monitor the fluctuation trend of Japanese Yen.

EMPLOYEES

As at 31 October 2014, the Group employed approximately 3,100 staff (2013: 3,400). The remuneration of the employees is determined by reference to market benchmark, individual performance, academic qualification and work experience, subject to periodic review. Other agreed employee benefits includes pension scheme, medical insurance, on-job training, education subsidy and other social security and paid leaves stipulated under the relevant jurisdiction of places of operation.

Social Responsibilities

The Group is proactive in carrying out the responsibilities of a corporate citizen. By participating in various kinds of charitable, volunteer, and recreational activities, we have encouraged our staff force to care about the community and have promoted a sound mind in a sound body as well as their balanced development. We have also made donation to charitable organizations and educational institutions and have endeavored to participate in social welfare activities.

FUTURE OUTLOOK

Retail business

The Group anticipates that the already fiercely competitive retail market tends to be even more complicated as time goes by. On one hand, traditionally run gigantic retailers have gradually embraced into their operations those elements that 759 STORE commands a niche. On the other hand, Hong Kong's domestic retail market has been incessantly adding medium/small retail shops that replicate 759 STORE's business model. Hence, it is expected that the Group will face challenging competitions that are multi-level in nature. Yet, the founder believes that such a heated competition in the retail market reflects a heated market as well. And such a blossoming market can only serve consumers with better selections, more reasonable prices, and premier quality service. This is exactly the corporate objective of "759 STORE". Yet, at the same time, the management realized that retailing trends had been ever-changing. Maintaining competitiveness will be going onward tested. Furthermore, when consumer spending power undergoes cyclical fluctuations, fierce competition can develop oversupply problems. The management believes that 759 STORE boasts a purchasing model – parallel import in container unit, which differs from the retailing market practice locally. Yet, we have endeavored to develop a rapport with domestic suppliers, but the road turned out to be a bit bumpy as it is often constrained by such elements as pricing and competition. Nonetheless, we have been given support by those who are sincere in giving their helping hands. Still, we have experienced some setbacks in those conventional merchandise which can be purchased in traditionally run gigantic retailers. During the period under review, the Group conducted several very stringent market studies. The studies tell us that those visiting 759 STORE tend to shop for those merchandise they cannot locate on the shelves of traditionally run gigantic retailers. They are simply not interested in shopping from 759 STORE for those merchandise that can be commonly found in traditional retailers. The reason behind this is that supermarket chains and convenience stores provide easy access and ample supplies

of conventional merchandise. Thus, the founder realized customer expectation of 759 STORE. We will therefore adopt a policy of “uniqueness” in our products, i.e. we don’t replicate products that can be found in supermarket chains and convenience stores. It is also necessary that we broaden our sourcing scope of merchandise, increase merchandise varieties, and rapidly change the product mix on our shelves. The objective is to remain competitive by providing multivariate selections for consumers.

759 STORE would keep expanding its product range, in effort to provide much more choices on daily commodities that showed up in every corners of Hong Kong residents’ home. In terms of food, snacks remain the major product type and its volume of import and sales volume also grew steadily in line with business expansion. While the Group is now developing other types of products, the proportion of snacks to total sales amount has now decreased from preliminary over 70% to less than 40%. The management forecast its proportion will further decrease to about 35%. The Group will focus on strengthening the growth of the most outstanding category - frozen food, and explore more seafood, meat and other grocery food items worldwide, offering more suitable foodstuff for customers’ selection and allowing them to experience the joy of cooking. In addition, personal care product has now been incorporated into 759 STORE’s second important product type and we will expand its sales network, develop extensive import sources on this category, as well as increasing the number of outlets displaying this category. Apart from existing merchandise, the Group has commenced to import more sanitary, personal care and physiologic products. Kitchenware, as latest development, had become one of the top 3 best-sellers. For examples, Chinese and western-style frying pans, microwave oven food containers, various detergents and kitchen consumables were customers’ best favourites. The Group will restock according to sales volume and introduce other products with different feature and style to satisfy various customers’ needs. Besides, 759 STORE will attempt to test the market with products of baby and the elderly, fashion and fine items. As to the fresh food, vegetable and fruits, we have not been able to import them parallel in container units, and have to rely on local suppliers. Hence the performance has turned out to be underperforming. We have there temporarily suspended its development and have to wait for opportunities.

759 STORE has opened its first restaurant named “759 WONTON NOODLE” in Cheung Sha Wan over the period under review. Another three restaurants including “759 茶餐廳”, “759車仔麵” and a light refreshment outlet named “759 CAFE” within “759 SKYLAND” also started operation in the third quarter. The Group has opened the 4 restaurants as a test for entering into the food and beverage industry. The restaurants come with their own kitchens – no food is served from central kitchen, for which we have recruited experienced chefs for cooking traditional Hong Kong-style dishes. Dishes popular in 1970s to 1980s of Hong Kong small restaurant styles are prepared under the system of “master chefs”, thus providing a unique selection of food and beverage for customers. The Group will also establish its first “759 BAKERY”, with bakery workshop inside the shop, by the end of December. At the moment, the Group aims to collect operation data from its catering business but has no planning to develop it to be the major source of income other than retail and manufacturing business.

During the period under review, 759 STORE had finished the development of the computer software, mobile applications, related servers and delivery arrangement for the online shopping platform. The platform was ready to be launched in October this year, providing such online shopping services at 3-6 districts in Hong Kong. Although market leaders in retail industry had put a lot of effort to develop online retail platform, after various thinkings set rest in mind, the founder decided that 759 STORE should suspend its online retail business temporarily so as to make more observation in the market, giving more effort to consolidate its development in real retail shop front, in response to the encouraging sales performance achieved by real retail shop front in August, September, and October.

All along, the Group has been operated under the principle of “step-by-step, sustainability, continuing improvement”, we will develop the Group’s retail business as our core business. In the previous financial year, the Group has cancelled its development objective of increasing the number of shops. For the selection of every shop, we have been prudent in our analysis of every decision making. Our current operating scale and cost structure has conformed to our business development plan expectation. Looking forward, our founder will leverage on the Group’s overall financial leverage and cash flow, follow the order of priority to develop the Group’s core business – the retail business.

For a period of more than 4 years and based on various statistics, the development of our retail business has been positive and encouraging. For this, we have to thank for the support our customers, banks, suppliers, shop landlords, and all our staff. The reason behind our breakthrough in the small gap of development of the retail market in such a short period of time can be attributed to the downward volatility of Japanese Yen and Euro. Under the policy of “quick turns and small margins”, we have achieved a competitive advantage over our contenders. It is expected that future volatility of Japanese Yen, Euro and RMB may directly impact the Group’s competitiveness. Encountering such an uncertainty in the international currency trendline, the Group can only adopt a purchasing policy of globalization. Thus, we will extend our purchasing sources to various sovereigns of currency and economic entities. On one hand, it helps add novelty to our imported products and increases the variety of choices. On the other hand, we can make use of the volatility of different currencies and the variation of their production costs to balance imported product costs. Thus, our principle of “quick turns and small margins” will be less negatively impacted by the economic and financial volatility of single region.

The founder has been adamant in the policy of “quick turns and small margins”. By volume purchases and mass sales, we have strengthened our scale of operation. Yet, we thoroughly realize the danger of a long-term low profit margin for the retail business. When the community or the economy faces such tremendous volatility as the recent speculation that interest rate will go up – a high risk for us, the operation of our retail business can be dealt with a tremendous amount of pressure and our supporters may cast doubt on the sustainability of the Group’s operation. To this end, we should all stay alerted in monitoring all facets of our business data, market information, and domestic and external economic information on a timely basis, and make mobile and decisive decisions to maintain quick turnaround time of our merchandise.

Manufacturing business

The Group will continue to systematically reduce its production in Zhongshan main factory and Nanjing factory so as to gradually phase out its manufacture business. The main factory in Zhongshan will close down its more than 15-year operation of fabricating the Manganese/Zinc series of magnetic material. We will reallocate the resources released to operate the fabrication of Nickel/Zinc series of magnetic material and its related coil products. For Nanjing, some production facilities would gradually ceased its operation in accordance with the downgoing trend in customers’ need. The Group still would try its best to control cost, improving manufacturing efficiency so that on one hand continuously providing high quality products and services to our partners and clients that had worked together for years, and also on the other hand, ensuring the income and expenses in manufacturing business were well balance in the future to make its way to the ultimate goal of softlanding.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES

The Company had not redeemed any of its listed shares during the six months ended 31 October 2014. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s listed shares during the six months ended 31 October 2014.

CORPORATE GOVERNANCE CODE

The Company has adopted the principles and complied with the applicable code provisions of the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Listing Rules for the six months ended 31 October 2014, except for the following deviations:

1. Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Before 29 September 2009, the roles of the Chairman of the Board and the chief executive officer of the Company (the “CEO”) were performed by two different executive directors of the Company. Due to the re-allocation of the respective duties of the executive directors of the Company, Mr. Lam Wai Chun, the Chairman of the Board, has been appointed as the Managing Director of the Company with effect from 29 September 2009 and has carried out the responsibilities of the CEO since then. This constitutes a deviation from the code provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, as Mr. Lam Wai Chun is the founder of the Group and possesses substantial and valuable experience in the industry that is relevant to the Group’s operation, the Board believes that vesting the roles of the Chairman of the Board and the CEO in the same person will provide the Company with strong and consistent leadership and promote effective and efficient formulation and implementation of business decisions and strategies and considers that such structure is currently in the best interests of the Company and its shareholders.

2. Under code provision E.1.2 of the Code, the Chairman of the Board should attend the annual general meeting of the Company.

The Chairman of the Board did not attend the Annual General Meeting of the Company held on 25 September 2014 (the “2014 AGM”) due to illness at the material time. Ms. Tang Fung Kwan, the executive director of the Company, who took the chair of 2014 AGM, and all other members of the Board (including the chairman of each of the Audit Committee and the Remuneration Committee and the members of the Nomination Committee) attended the 2014 AGM to ensure effective communication with the shareholders of the Company.

Following the pass away of Dr. Tang Tin Sek (“Dr. Tang”) on 2 December 2014, the Company only has two independent non-executive directors which does not meet the requirements under Rules 3.10 and 3.21 of the Listing Rules. The Board is looking for a suitable candidate and will appoint sufficient numbers of independent non-executive directors with at least one of them has appropriate professional qualifications or accounting or related financial management expertise in accordance with the requirements of Rules 3.11 and 3.23 of the Listing Rules. Further announcement on the appointment of independent non-executive director will be made in due course.

AUDIT COMMITTEE

During the reporting period, the Audit Committee of the Company comprised three independent non-executive directors of the Company, with Dr. Tang, who was a Certified Public Accountant practising in Hong Kong with substantial experience in corporate finance, auditing and financial management, acting as chairman of the Audit Committee. As Dr. Tang passed away on 2 December 2014, his position in the Audit Committee was terminated at the same time.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group, the internal control of the Group and the interim results for the six months ended 31 October 2014.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee for the purpose of making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee also has the delegated responsibility to make recommendations to the Board on (i) the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment and (ii) the remuneration of non-executive directors. During the reporting period, the Remuneration Committee comprised four members including one executive director, namely Ms. Tang Fung Kwan, and three independent non-executive directors, namely Mr. Au Son Yiu (chairman of the Remuneration Committee), Dr. Tang and Mr. Goh Gen Cheung. As Dr. Tang passed away on 2 December 2014, his position in the Remuneration Committee was terminated at the same time.

NOMINATION COMMITTEE

The Company established the Nomination Committee to review the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board, to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy and to assess the independence of independent non-executive directors of the Company. During the reporting period, the Nomination Committee comprised four members including one executive director, namely Mr. Lam Wai Chun (chairman of the Nomination Committee), and three independent non-executive directors, namely Mr. Au Son Yiu, Dr. Tang and Mr. Goh Gen Cheung. As Dr. Tang passed away on 2 December 2014, his position in the Nomination Committee was terminated at the same time.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions for the six months ended 31 October 2014. Following specific enquiry by the Company, all of the directors (except Dr. Tang) of the Company confirmed compliance with the required standard set out in the Model Code throughout the six months ended 31 October 2014. The Model Code also applies to the relevant employees of the Group.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 31 October 2014 will be despatched to the shareholders of the Company on or before 31 January 2015 and will be published on the website of Hong Kong Exchanges and Clearing Limited and of the Company.

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 19 December 2014

As at the date of this announcement, the Board of the Company comprises three Executive Directors, namely Mr. Lam Wai Chun, Ms. Tang Fung Kwan and Mr. Ho Man Lee; and two Independent Non-executive Directors, namely Mr. Au Son Yiu and Mr. Goh Gen Cheung.

Websites: <http://www.0759.com>
<http://www.ceccoils.com>
<http://www.irasia.com/listco/hk/cecint>

* *For identification purpose only*