

WILLAS-ARRAY ELECTRONICS (HOLDINGS) LIMITED

Unaudited First Quarter Financial Statements And Dividend Announcement For The Three Months Ended June 30, 2019

PART I – INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group Income Statement and Statement of Comprehensive Income for the First Quarter Ended June 30, 2019

	For the three months ended June 30,		Change %
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)	
Revenue	792,225	1,094,411	-27.6
Cost of sales	<u>(737,614)</u>	<u>(984,734)</u>	-25.1
Gross profit	54,611	109,677	-50.2
Other income	1,004	1,170	-14.2
Distribution costs	(8,904)	(13,564)	-34.4
Administrative expenses	(51,414)	(56,855)	-9.6
Other gains and losses	(9,697)	(18,325)	-47.1
Impairment losses, net of reversal	(700)	–	NM
Finance costs	<u>(9,544)</u>	<u>(9,415)</u>	+1.4
(Loss) profit before tax	(24,644)	12,688	NM
Income tax expense	<u>72</u>	<u>(5,733)</u>	NM
(Loss) profit for the period	<u>(24,572)</u>	<u>6,955</u>	NM
Other comprehensive expense:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation of foreign operations	<u>(7,374)</u>	<u>(10,956)</u>	-32.7
Other comprehensive expense for the period	<u>(7,374)</u>	<u>(10,956)</u>	-32.7
Total comprehensive expense for the period attributable to owners of the Company	<u><u>(31,946)</u></u>	<u><u>(4,001)</u></u>	-698.5

NM – Not Meaningful

1(a)(ii) The (loss) profit before income tax had been arrived at after charging (crediting) the following:

	For the three months ended June 30,	
	2019	2018
	HK\$'000	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Allowance for inventories	8,272	3,415
Amortisation of prepaid lease payments	3	3
Depreciation of property, plant and equipment	3,589	3,090
Depreciation of right-of-use assets (<i>Note</i>)	2,319	–
Impairment losses recognized on trade receivables	700	–
Gain on disposal of property, plant and equipment	–	(2)
Net foreign exchange loss	10,347	18,302
Net (gain) loss on fair value changes of derivative financial instruments	(650)	25
Share-based payment expense	–	944
Interest income from bank deposits	(827)	(392)
Interest expense on borrowings	9,404	9,415
	<u>9,404</u>	<u>9,415</u>

Note: Certain rental expenses of operating lease were reclassified to depreciation of right-of-use assets in accordance with the adoption of IFRS 16 *Leases* with effect from April 1, 2019. The right-of-use assets were grouped under property, plant and equipment in the Group's statement of financial position.

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

Group Statement of Financial Position

	As at June 30, 2019 HK\$'000 (Unaudited)	As at March 31, 2019 HK\$'000 (Audited)
ASSETS		
Non-current assets		
Property, plant and equipment	288,917	279,355
Prepaid lease payments – non-current	541	544
Club debentures	2,001	2,001
Interest in an associate	–	–
Financial assets measured at fair value through other comprehensive income	–	–
Long-term deposits	16,001	16,514
Deferred tax assets	2,091	1,972
Restricted bank deposits	2,270	–
Total non-current assets	<u>311,821</u>	<u>300,386</u>
Current assets		
Inventories	629,610	689,898
Trade receivables	814,458	768,428
Other receivables, deposits and prepayments	9,954	10,019
Prepaid lease payments – current	12	12
Income tax recoverable	12,095	12,201
Derivative financial instruments	519	31
Restricted bank deposits	4,540	4,673
Cash and cash equivalents	294,856	297,498
Total current assets	<u>1,766,044</u>	<u>1,782,760</u>
Total assets	<u><u>2,077,865</u></u>	<u><u>2,083,146</u></u>

Group Statement of Financial Position – continued

	As at June 30, 2019 HK\$'000 (Unaudited)	As at March 31, 2019 HK\$'000 (Audited)
LIABILITIES AND EQUITY		
Current liabilities		
Trade payables	363,149	310,863
Other payables	29,871	34,776
Contract liabilities	3,657	8,604
Income tax payable	1,891	2,927
Trust receipt loans	611,602	591,998
Bank borrowings	383,105	434,147
Derivative financial instruments	379	540
Lease liabilities	9,148	–
	<u>1,402,802</u>	<u>1,383,855</u>
Total current liabilities		
	<u>1,402,802</u>	<u>1,383,855</u>
Net current assets	<u>363,242</u>	<u>398,905</u>
Total assets less current liabilities	<u>675,063</u>	<u>699,291</u>
Capital and reserves		
Share capital	85,207	85,207
Reserves	553,467	585,413
	<u>638,674</u>	<u>670,620</u>
Equity attributable to owners of the Company		
	<u>638,674</u>	<u>670,620</u>
Non-current liabilities		
Deferred tax liabilities	27,716	28,671
Lease liabilities	8,673	–
	<u>36,389</u>	<u>28,671</u>
Total non-current liabilities		
	<u>36,389</u>	<u>28,671</u>
Total liabilities and equity	<u>2,077,865</u>	<u>2,083,146</u>

Company Statement of Financial Position

	As at June 30, 2019 <i>HK\$'000</i> (Unaudited)	As at March 31, 2019 <i>HK\$'000</i> (Audited)
ASSETS		
Non-current assets		
Amount due from a subsidiary	33,814	33,814
Investments in subsidiaries	<u>117,470</u>	<u>117,470</u>
Total non-current assets	<u>151,284</u>	<u>151,284</u>
Current assets		
Amounts due from subsidiaries	228,155	227,239
Prepayments	219	83
Income tax recoverable	304	331
Cash and cash equivalents	<u>1,112</u>	<u>3,235</u>
Total current assets	<u>229,790</u>	<u>230,888</u>
Total assets	<u><u>381,074</u></u>	<u><u>382,172</u></u>
LIABILITIES AND EQUITY		
Current liabilities		
Other payables	396	1,467
Financial guarantee liabilities	<u>11,080</u>	<u>14,774</u>
Total current liabilities	<u>11,476</u>	<u>16,241</u>
Net current assets	<u><u>218,314</u></u>	<u><u>214,647</u></u>
Total assets less current liabilities	<u><u>369,598</u></u>	<u><u>365,931</u></u>
Capital and reserves		
Share capital	85,207	85,207
Reserves	<u>284,391</u>	<u>280,724</u>
Equity attributable to owners of the Company	<u><u>369,598</u></u>	<u><u>365,931</u></u>
Total liabilities and equity	<u><u>381,074</u></u>	<u><u>382,172</u></u>

1(b)(ii) In relation to the aggregate amount of the group's borrowings and debt securities, specify the following as at the end of the current financial period reported on with comparative figures as at the end of the immediately preceding financial year:

Amount repayable in one year or less, or on demand

As at June 30, 2019 (Unaudited)		As at March 31, 2019 (Audited)	
Secured	Unsecured	Secured	Unsecured
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
158,105	836,602	209,147	816,998

Amount repayable after one year

As at June 30, 2019 (Unaudited)		As at March 31, 2019 (Audited)	
Secured	Unsecured	Secured	Unsecured
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
–	–	–	–

Details of any collaterals

Not applicable.

- 1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated Statement of Cash Flows for the First Quarter Ended June 30, 2019

	For the three months ended June 30,	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	33,717	(99,662)
Net cash used in investing activities		
Purchase of property, plant and equipment	(725)	(344)
Deposits paid for acquisition of property, plant and equipment	–	(11,985)
Placement of restricted bank deposits	(2,326)	–
Proceeds from disposal of property, plant and equipment	–	2
	(3,051)	(12,327)
Net cash (used in) generated from financing activities		
Repayment of trust receipt loans	(490,635)	(712,038)
Proceeds from trust receipt loans	510,240	746,372
Repayment of bank borrowings	(273,766)	(103,587)
Proceeds from bank borrowings	223,478	164,885
Payment of lease liabilities	(1,757)	–
	(32,440)	95,632
Net decrease in cash and cash equivalents	(1,774)	(16,357)
Cash and cash equivalents at beginning of the period	297,498	327,050
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(868)	(2,428)
Cash and cash equivalents at end of the period	294,856	308,265

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Equity

Group

	Attributable to owners of the Company								
	Share capital	Capital reserves	Statutory reserve	Property revaluation reserve	Currency translation reserve	Financial assets measured at fair value through other comprehensive income reserve	Other reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000 (Note i)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note ii)	HK\$'000	HK\$'000
At April 1, 2018 (Audited)	76,341	197,794	18,134	109,032	20,969	–	(3,561)	297,349	716,058
Adjustment									
Transfer of impairment losses previously recognised	–	–	–	–	–	(16,448)	–	16,448	–
At April 1, 2018 (Restated)	76,341	197,794	18,134	109,032	20,969	(16,448)	(3,561)	313,797	716,058
Total comprehensive (expenses) income for the period:									
Profit for the period	–	–	–	–	–	–	–	6,955	6,955
Other comprehensive expense for the period	–	–	–	–	(10,956)	–	–	–	(10,956)
Total	–	–	–	–	(10,956)	–	–	6,955	(4,001)
Transactions with owners, recognised directly in equity:									
Recognition of equity-settled share-based payments	–	944	–	–	–	–	–	–	944
Total	–	944	–	–	–	–	–	–	944
At June 30, 2018 (Unaudited)	76,341	198,738	18,134	109,032	10,013	(16,448)	(3,561)	320,752	713,001
At April 1, 2019 (Audited)	85,207	193,551	19,580	121,941	3,861	(16,448)	(3,561)	266,489	670,620
Total comprehensive expense for the period:									
Loss for the period	–	–	–	–	–	–	–	(24,572)	(24,572)
Other comprehensive expense for the period	–	–	–	–	(7,374)	–	–	–	(7,374)
Total	–	–	–	–	(7,374)	–	–	(24,572)	(31,946)
At June 30, 2019 (Unaudited)	85,207	193,551	19,580	121,941	(3,513)	(16,448)	(3,561)	241,917	638,674

Notes:

- (i) The statutory reserve is non-distributable and was appropriated from profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") and Taiwan under the respective laws and regulations of the PRC and Taiwan.
- (ii) Other reserve comprises a debit amount of HK\$3,561,000 and represents the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the additional interest in certain then subsidiaries acquired during the year ended March 31, 2017.

Statement of Changes in Equity – continued

Company

	Share capital	Capital reserves	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At April 1, 2018 (Audited)	76,341	197,794	88,674	362,809
Profit for the period, representing total comprehensive income for the period	–	–	3,201	3,201
Transactions with owners, recognised directly in equity: Recognition of equity-settled share-based payments	–	944	–	944
Total	–	944	–	944
At June 30, 2018 (Unaudited)	<u>76,341</u>	<u>198,738</u>	<u>91,875</u>	<u>366,954</u>
At April 1, 2019 (Audited)	85,207	193,551	87,173	365,931
Profit for the period, representing total comprehensive income for the period	–	–	3,667	3,667
At June 30, 2019 (Unaudited)	<u>85,207</u>	<u>193,551</u>	<u>90,840</u>	<u>369,598</u>

1(d)(ii) Details of any changes in the company’s share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

As at June 30, 2019 and March 31, 2019, the share capital of the Company amounted to HK\$85,207,049 comprising 85,207,049 issued ordinary shares.

The table below discloses movement of the Company’s share options under Willas-Array Electronics Employee Share Option Scheme II (“ESOS II”):

	Number of share options
Unexercised share options for ordinary shares at April 1, 2018 (Audited) and June 30, 2018 (Unaudited)	1,600
Bonus Issue during the period (<i>Note</i>)	160
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Unexercised share options for ordinary shares at April 1, 2019 (Audited) and June 30, 2019 (Unaudited)	1,760
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The table below discloses movement of the Company’s share options under Willas-Array Electronics Employee Share Option Scheme III (“ESOS III”):

	Number of share options
Unexercised share options for ordinary shares at April 1, 2018 (Audited) and June 30, 2018 (Unaudited)	3,080,000
Exercised during the period	(1,120,000)
Bonus Issue during the period (<i>Note</i>)	196,000
Cancelled during the period	<u>(1,166,000)</u>
Unexercised share options for ordinary shares at April 1, 2019 (Audited) and June 30, 2019 (Unaudited)	<u><u>990,000</u></u>

Note: Upon the bonus issue becoming effective on August 28, 2018, (i) the exercise price of the outstanding options granted under ESOS II and ESOS III was adjusted to Singapore dollar 0.305 per share and HK\$3.91 per share, respectively; and (ii) the respective numbers of underlying shares comprised in the outstanding options granted under ESOS II and ESOS III of the Company have been adjusted accordingly.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

As at June 30, 2019, the total number of issued shares of the Company was 85,207,049 ordinary shares (March 31, 2019: 85,207,049). The Company has no treasury shares.

1(d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the Company's auditor.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The financial statements of the Group and the Company have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from the application of new and amendments to International Accounting Standards and International Financial Reporting Standards issued by the International Accounting Standards Board which became effective from this financial year, the accounting policies and methods of computation used in the financial statements for the three months ended June 30, 2019 are the same as those followed in the preparation of the Group's audited financial statements for the financial year ended March 31, 2019.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group has adopted the following new accounting standards, amendment and interpretation to existing standards which are mandatory for accounting periods beginning on or after January 1, 2019.

International Financial Reporting Standard 16 *Leases* (“IFRS 16”)

The Group has applied IFRS 16 from April 1, 2019. The Group applied the modified retrospective approach for the application of IFRS 16 as lessee and has not restated comparative information for the year prior to the date of initial application. The lease liabilities were measured at the present values of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of the date of initial application. Upon application of IFRS 16, right-of-use assets were measured at the amount of the corresponding lease liabilities.

As at April 1, 2019, the Group recognised its existing operating lease arrangements as right-of-use assets (under property, plant and equipment) with corresponding lease liabilities and the effects are as shown below:

Group Statement of Financial Position (extract)	As at March 31, 2019 <i>HK\$’000</i>	Adjustment <i>HK\$’000</i>	As at April 1, 2019 <i>HK\$’000</i>
<u>Assets</u>			
Property, plant and equipment	–	19,450	19,450
<u>Liabilities</u>			
Lease liabilities – Current	–	9,072	9,072
Lease liabilities – Non-current	–	10,378	10,378
	–	19,450	19,450

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends:**
- (a) **Based on the weighted average number of ordinary shares on issue; and**
- (b) **On a fully diluted basis (detailing any adjustments made to the earnings).**

	Group Figures			
	For the three months ended June 30, 2019 (Unaudited)		For the three months ended June 30, 2018 (Unaudited)	
	Basic	Diluted	Basic	Diluted
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) profit attributable to owners of the Company	<u>(24,572)</u>	<u>(24,572)</u>	<u>6,955</u>	<u>6,955</u>
	No. of shares	No. of shares	(Restated) No. of shares	(Restated) No. of shares
Weighted average number of ordinary shares	<u>85,207,049</u>	<u>85,207,049</u>	83,975,056	83,975,056
Adjustment for dilutive potential ordinary shares	<u>–</u>	<u>N/A</u>	<u>–</u>	<u>1,085,649</u>
Weighted average number of ordinary shares used to compute (loss) earnings per share	<u>85,207,049</u>	<u>85,207,049</u>	<u>83,975,056</u>	<u>85,060,705</u>
(Loss) earnings per share (HK cents)	<u>(28.84)</u>	<u>(28.84)</u>	<u>8.28</u>	<u>8.18</u>

The computation of diluted loss per share for the three months ended June 30, 2019 did not assume the exercise of share options granted by the Company since their assumed exercise would result in a decrease in loss per share for the period.

For the three months ended June 30, 2018, the weighted average number of ordinary shares, dilutive potential ordinary shares, basic and diluted earnings per share have been adjusted and restated on the assumption that the bonus issue that took place on August 28, 2018 had been effective at the beginning of the period.

7. **Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:**
- (a) **current financial period reported on; and**
 - (b) **immediately preceding financial year.**

	Group Figures		Company Figures	
	As at June 30, 2019 (Unaudited)	As at March 31, 2019 (Audited)	As at June 30, 2019 (Unaudited)	As at March 31, 2019 (Audited)
Net asset value per ordinary share based on the number of issued shares of the Company at the end of the period/year (HK cents)	<u><u>749.56</u></u>	<u><u>787.05</u></u>	<u><u>433.76</u></u>	<u><u>429.46</u></u>

The net asset backing per ordinary share as at June 30, 2019 was based on a total of 85,207,049 (March 31, 2019: 85,207,049) issued ordinary shares.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:**
- (a) **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - (b) **any material factors that affect the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Business Review

For the three months ended June 30, 2019 (“1Q FY2020”) vs three months ended June 30, 2018 (“1Q FY2019”)

The Group recorded an attributable loss of HK\$24.6 million in 1Q FY2020 compared to an attributable profit of HK\$7.0 million in 1Q FY2019 mainly due to decrease in revenue and gross profit margin, which led to a decrease in gross profit in the current period.

Revenue

The Group’s sales revenue had decreased by 27.6% from HK\$1,094.4 million in 1Q FY2019 to HK\$792.2 million in 1Q FY2020.

Turnover by Market Segment Analysis *(in HK\$’000)*

	1Q FY2020		1Q FY2019		Increase/(Decrease)	
		%		%		%
Industrial	224,789	28.4%	291,094	26.6%	(66,305)	(22.8%)
Home Appliance	146,192	18.5%	166,076	15.2%	(19,884)	(12.0%)
Automotive	106,909	13.5%	126,447	11.6%	(19,538)	(15.5%)
Telecommunications	85,126	10.7%	220,795	20.2%	(135,669)	(61.4%)
Dealer	81,921	10.3%	98,860	9.0%	(16,939)	(17.1%)
Audio and Video	53,534	6.8%	71,498	6.5%	(17,964)	(25.1%)
Electronic Manufacturing						
Services	44,502	5.6%	53,905	4.9%	(9,403)	(17.4%)
Lighting	28,415	3.6%	34,586	3.2%	(6,171)	(17.8%)
Others	20,837	2.6%	31,150	2.8%	(10,313)	(33.1%)
	<u>792,225</u>	<u>100.0%</u>	<u>1,094,411</u>	<u>100.0%</u>	<u>(302,186)</u>	<u>(27.6%)</u>

The US-China trade tensions, which affected the Group’s performance in FY2019 continued to weigh heavily on its results in this financial year. Both export and domestic demand in China remained weak in 1Q FY2020. Against this backdrop, many of the Group’s customers sought to maintain their production but with reduced buffer inventory levels. At the same time, customers were unwilling to place long-term future orders. Under such conditions, the Group had to deal with the short-term nature of new orders, while managing the level of existing buffer inventory from previous orders.

As a result of these challenges, the Group recorded a revenue drop of 27.6% in 1Q FY2020 compared to the same period last year, when the market was still strong before the US-China trade dispute.

In 1Q FY2020, Telecommunications was the Group's worse performing segment in its business portfolio. The Group attributed this to the trade war, which had damaged consumer confidence and this was further compounded by the delay in 4G migration to 5G. This segment also felt the impact when one of its key customers lost a major project. Collectively, this resulted in the segment's revenue falling 61.4% year on year ("YOY").

The Group's Automotive segment was also affected by the deteriorating market conditions. According to China Association of Automotive Manufacturers (CAAM), China car sales dropped by 12.4% in the first half (January to June) of 2019. Although the new-energy vehicle sales jumped by almost 50%, the overall electronics components demand cannot be recovered¹. Revenue from this segment declined 15.5% in 1Q FY2020, however in view of the long term potential growth in vehicle applications, the Group continues to believe this segment is worth investing in.

In both the Industrial and Home Appliance segments, the Group's customers are mainly serving the China domestic market, which is not directly impact by the US-China trade war, however, the weak consumer confidence and the tight cash flow in the market had a negative impact on demand. The revenue from Industrial and Home Appliance segments fell 22.8% and 12.0% YOY in 1Q FY2020, respectively.

Under such challenging conditions, all other segments were negatively affected by weak demand in both export and domestic markets, all recorded double-digit YOY declines in revenue in 1Q FY2020.

The Group remains convince of the potential of the China market and will continue to focus its efforts there. It will keep a close eye on inventory management and cost control of the Group.

1 "China autos brace for another annual contraction, sales shrink in June", Reuters Business News, July 10, 2019
(<https://www.reuters.com/article/us-china-autos/china-autos-brace-for-another-annual-contraction-sales-shrink-in-june-idUSKCN1U50LC>)

Gross Profit Margin

The Group's gross profit margin decreased from 10.0% in 1Q FY2019 to 6.9% in 1Q FY2020. The ongoing US-China trade tensions had resulted in weak consumer and business sentiments and greatly impacted market confidence from last year. The fall in gross profit margin was mainly attributed to price competition under a weak demand situation and clearance of buffer stocks created from last year.

Distribution Costs

Distribution costs decreased by HK\$4.7 million, or 34.4%, from HK\$13.6 million in 1Q FY2019 to HK\$8.9 million in 1Q FY2020. The decrease was mainly due to lower sales incentive expense, which was in line with the decrease in sales revenue. Furthermore, the Group has tightened the overseas travelling and entertainment expenses in 1Q FY2020.

Administrative Expenses

Administrative expenses decreased by HK\$5.5 million, or 9.6%, from HK\$56.9 million in 1Q FY2019 to HK\$51.4 million in 1Q FY2020. This was mainly due to expenses control in 1Q FY2020 and the partial warehouse removal expenses incurred in 1Q FY2019 for the relocation of a warehouse in Hong Kong.

Other Gains and Losses

Other losses of HK\$9.7 million in 1Q FY2020 (1Q FY2019: HK\$18.3 million) were due to exchange loss mainly arising from the depreciation of Renminbi.

Impairment Losses, Net of Reversal

Impairment losses of HK\$0.7 million in 1Q FY2020 (1Q FY2019: nil) represented the impairment losses on trade receivables.

Finance Costs

Finance costs slightly increased by HK\$0.1 million, or 1.4%, from HK\$9.4 million in 1Q FY2019 to HK\$9.5 million in 1Q FY2020. Certain rental expenses of HK\$0.1 million were reclassified to finance costs in accordance with the application of IFRS 16 from April 1, 2019; excluding the reclassification, finance costs would be at a similar level as 1Q FY2019. In spite of a decrease in average trust receipt loans and bank borrowings as compared to the same period last year, the average interest rate was higher in 1Q FY2020 so that the finance costs stood at a similar level as 1Q FY2019.

Financial Position

As compared to the previous financial year ended March 31, 2019, trust receipt loans increased by HK\$19.6 million. Trade payables increased from HK\$310.9 million as at March 31, 2019 to HK\$363.1 million as at June 30, 2019. The increase in trust receipt loans was mainly due to the increase in purchases towards the end of the period under review. Trade receivables as at June 30, 2019 increased by HK\$46.0 million when compared to those as at March 31, 2019, due to an increase in sales revenue towards the end of the period under review, and the debtors turnover days increased from 2.5 months to 3.0 months.

Inventories decreased from HK\$689.9 million as at March 31, 2019 to HK\$629.6 million as at June 30, 2019. The inventory turnover days remained at 2.5 months.

Cash Flow

As at June 30, 2019, the Group had a working capital of HK\$363.2 million, which included a cash balance of HK\$294.9 million, compared to a working capital of HK\$398.9 million, which included a cash balance of HK\$297.5 million as at March 31, 2019. The slight decrease in cash by HK\$2.6 million was primarily attributable to the net effect of cash outflows of HK\$3.1 million in investing activities and HK\$32.4 million in financing activities and inflow of HK\$33.7 million generated from operating activities.

Cash inflow generated from operating activities was mainly attributable to a decrease in inventories as a result of buffer stock clearance in current period.

Cash outflow in financing activities was attributable to the overall decreases in trust receipt loans and bank borrowings as a result of the decrease in inventories level.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable. No forecast or prospect statement was previously disclosed to shareholders.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

China’s economic growth in the second quarter (April to June) of 2019 slowed further as the year-long trade war with the United States took a toll on trade, manufacturing and consumer confidence. During the quarter, China’s economy grew 6.2%, its slowest growth rate on record and down from 6.4% registered in the first quarter of 2019².

We expect the ongoing US-China trade tension and the resulting implementation of tariffs to continue. With no near-term resolution in sight, a prolonged dispute will certainly worsen the global economy.

In view of the considerable downside risks and certain headwinds in the macro-environment, the Group will continue to be prudent in managing its operations and sustaining a healthy liquidity position in order to support the long-term growth.

11. Dividend

(a) Current Financial Period Reported On: Any dividend declared for the current financial period reported on?

None.

Name of Dividend:	Not applicable
Dividend Type:	Not applicable
Dividend Rate:	Not applicable
Par Value of Shares:	Not applicable
Tax Rate:	Not applicable

² “China economy reports lowest GDP growth on record for second quarter as US trade war bites”, by Sydney Leng for The South China Morning Post, July 15, 2019 (<https://www.scmp.com/economy/china-economy/article/3018580/china-economy-reports-lowest-gdp-record-second-quarter-us>)

- (b) Corresponding Period of the Immediately Preceding Financial Year:**
Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

Name of Dividend:	Not applicable
Dividend Type:	Not applicable
Dividend Rate:	Not applicable
Par Value of Shares:	Not applicable
Tax Rate:	Not applicable

- (c) The date the dividend is payable.**

Not applicable.

- (d) Books closure date.**

Not applicable.

- 12. If no dividend has been declared (recommended), a statement to that effect and the reason(s) for the decision.**

No dividend has been declared or recommended for 1Q FY2020 as the Group intends to retain the cash for the business operations.

- 13. If the Group has obtained a general mandate from shareholders for interest person transactions (the “IPTs”), the aggregate value of such transactions as required under Rule 920 (1)(a)(ii) of the Listing Manual of Singapore Exchange Securities Trading Limited (the “SGX-ST”). If no IPT mandate has been obtained, a statement to that effect.**

No general mandate has been obtained from the Shareholders for IPTs.

14. Negative confirmation on quarterly financial results pursuant to Rule 705(5) of the Listing Manual of the SGX-ST.

On behalf of the board of directors (the “Board”) of the Company, we confirm that to the best of our knowledge, nothing has come to the attention of the Board which may render the Group’s unaudited financial results for the first quarter ended June 30, 2019 to be false or misleading in any material aspect.

On behalf of the Board,

Leung Chun Wah, Chairman
Kwok Chan Cheung, Deputy Chairman

15. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1) of the Listing Manual of the SGX-ST.

On behalf of the Board, we confirm that we have procured all the required undertakings to comply with the SGX-ST’s listing rules from all the directors and executive officers of the Company.

By Order of the Board
Willas-Array Electronics (Holdings) Limited
Leung Chun Wah
Chairman and Executive Director

August 14, 2019

As at the date of this announcement, the Board comprises four Executive Directors, namely Leung Chun Wah (Chairman), Kwok Chan Cheung (Deputy Chairman), Hon Kar Chun (Managing Director) and Leung Hon Shing; and three Independent Non-executive Directors, namely Jovenal R. Santiago, Wong Kwan Seng, Robert and Iu Po Chan, Eugene.