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HKC INTERNATIONAL HOLDINGS LIMITED

香港通訊國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 248)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2020

The board of directors (the “Board”) of HKC International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September, 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2020

		Six months ended	
		30 September,	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	89,202	111,270
Cost of sales		70,097	(89,287)
Gross profit		19,105	21,983
Other income and gains and losses	4	4,648	(1,375)
Selling and distribution expenses		(3,045)	(2,722)
Administrative and other operating expenses		(18,406)	(21,127)
Finance costs	5	(1,008)	(1,099)

* For identification purpose only

		Six months ended	
		30 September,	
		2020	2019
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Profit (loss) before taxation	6	1,294	(4,340)
Tax expenses	7	(120)	(60)
Profit (loss) for the period attributable to equity holders of the Company		1,174	(4,400)
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		(327)	(193)
Total comprehensive income (expense) attributable to equity holders of the Company		847	(4,593)
Earnings (loss) per share – (HK cents) – basic and diluted	8	0.09 cents	(0.35) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER, 2020

		As at 30 September, 2020	As at 31 March, 2020
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		54,232	54,405
Investment properties		205,950	205,950
Financial assets at fair value through profit and loss (“FVTPL”)		1,947	1,947
Financial assets at fair value through other comprehensive income (“FVTOCI”)		5,191	5,191
		267,320	267,493
Current assets			
Inventories		20,178	17,455
Contract assets	10	18,403	22,950
Financial assets at fair value through profit and loss (“FVTPL”)		594	418
Trade receivables	11	16,815	16,580
Prepayments, deposits and other receivables		6,914	13,390
Tax recoverable		52	52
Pledged bank deposits		2,420	2,000
Cash and bank balances		14,034	17,350
		79,410	90,195
Current liabilities			
Trade payables	12	3,058	6,435
Accruals and other payables		8,326	7,299
Contract liabilities		2,297	2,812
Lease liabilities		180	347
Bank borrowings		56,450	65,320
Tax payable		501	381
		70,812	82,594
Net current assets		8,598	7,601

	As at 30 September, 2020 HK\$'000 (unaudited)	As at 31 March, 2020 HK\$'000 (audited)
Total assets less current liabilities	275,918	275,094
Non-current liabilities		
Lease liabilities	213	236
Deferred tax liabilities	282	282
	495	518
Net assets	275,423	274,576
Capital and reserves		
Share capital	12,453	12,453
Reserves	262,970	262,123
Total equity	275,423	274,576

NOTES ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2020

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations (“HK-Int”)) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial instruments, which have been measured at fair values. These financial statements are presented in Hong Kong Dollars (“HK\$”) and all values are rounded to the nearest thousand except where otherwise indicated.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by HKICPA and with the applicable disclosure requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (“Listing Rules”). Except as described below, the accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 March, 2020.

In the current interim period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial year beginning 1 April, 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS and the amendments to HKFRSs in the current interim period has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE/SEGMENT INFORMATION

Revenue represents sales of mobile phones, sales of internet of things (“IOT”) solutions and gross rental income.

a) Segment results, assets and liabilities

The reportable segments for the six months ended 30 September, 2020 are as follows:

	Sales of mobile phones in Hong Kong <i>HK\$'000</i>	Sales of IOT solutions in Hong Kong <i>HK\$'000</i>	Sales of IOT solutions in Mainland China and other countries in South East Asia <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers	<u>56,455</u>	<u>23,873</u>	<u>7,545</u>	<u>1,329</u>	<u>89,202</u>
Reportable segment (loss) profit	<u>(1,416)</u>	<u>3,443</u>	<u>(679)</u>	<u>(285)</u>	<u>1,063</u>
Interest income from bank deposits	10	–	–	–	10
Finance costs	577	–	91	340	1,008
Depreciation for the period	43	188	220	34	485
Impairment loss on trade receivables	–	315	–	–	315
Reportable segment assets	59,900	45,254	9,799	224,045	338,998
Additions to non-current assets during the period	10	293	9	0	312
Reportable segment liabilities	33,197	5,554	8,000	24,274	71,025

The reportable segments for the six months ended 30 September, 2019 are as follows:

	Sales of mobile phones in Hong Kong <i>HK\$'000</i>	Sales of IOT solutions in Hong Kong <i>HK\$'000</i>	Sales of IOT solutions in Mainland China and other countries in South East Asia <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers	<u>79,867</u>	<u>24,594</u>	<u>4,508</u>	<u>2,301</u>	<u>111,270</u>
Reportable segment (loss) profit	<u>(823)</u>	<u>373</u>	<u>(2,971)</u>	<u>493</u>	<u>(2,928)</u>
Interest income from bank deposits	34	–	–	–	34
Finance costs	607	36	15	441	1,099
Depreciation for the period	624	135	179	36	974
Reportable segment assets	129,982	36,392	15,011	185,527	366,912
Additions to non-current assets during the period	30	77	300	–	407
Reportable segment liabilities	37,984	11,593	4,132	26,750	80,459

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss) profit earned by each segment without allocation of fair value gain (loss) of financial assets at FVTPL, net exchange gain (loss) and tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

b) Geographic information

	Revenues from external customers		Non-current assets*	
	30.9.2020 <i>HK\$'000</i> (unaudited)	30.9.2019 <i>HK\$'000</i> (unaudited)	30.9.2020 <i>HK\$'000</i> (unaudited)	31.3.2020 <i>HK\$'000</i> (audited)
Hong Kong (place of domicile)	<u>81,491</u>	<u>106,789</u>	<u>249,458</u>	<u>249,874</u>
Mainland China	<u>4,565</u>	<u>2,724</u>	<u>449</u>	<u>428</u>
Singapore	<u>2,731</u>	<u>1,535</u>	<u>10,275</u>	<u>10,053</u>
Other countries in South East Asia	<u>415</u>	<u>222</u>	<u>–</u>	<u>–</u>
	<u>7,711</u>	<u>4,481</u>	<u>10,724</u>	<u>10,481</u>
	<u>89,202</u>	<u>111,270</u>	<u>260,182</u>	<u>260,355</u>

* Non-current assets excluding financial assets at FVTPL and financial assets at FVTOCI

c) **Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

	Six months ended	
	30.9.2020	30.9.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
REVENUE		
Reportable segment and consolidated revenue from external customers	89,202	111,270
PROFIT OR LOSS		
Reportable segment profit (loss)	1,063	(2,928)
Fair value gain (loss) of financial assets at FVTPL	176	(52)
Net exchange gain (loss)	55	(4)
Refund of forfeited deposit	–	(1,356)
Consolidated profit (loss) before taxation	1,294	(4,340)
	30.9.2020	31.3.2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
ASSETS		
Total reportable segment assets	338,998	350,132
Unallocated corporate assets	7,732	7,556
Consolidated total assets	346,730	357,688
LIABILITIES		
Total reportable segment liabilities	71,025	82,830
Deferred tax liabilities	282	282
Consolidated total liabilities	71,307	83,112

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than financial assets at FVTPL and financial assets at FVTOCI.
- all liabilities are allocated to reportable segments other than deferred tax liabilities.

4. OTHER INCOME AND GAINS AND LOSSES

	Six months ended	
	30.9.2020	30.9.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Government subsidies	4,622	–
Bank interest income	10	34
Dividend income from listed equity securities	2	2
Fair value gain (loss) on financial assets at FVTPL	176	(52)
Net exchange gain (loss)	55	(4)
Impairment loss on trade receivables	(315)	–
Refund of forfeited deposit	–	(1,356)
Others	98	1
	<u>4,648</u>	<u>(1,375)</u>

5. FINANCE COSTS

	Six months ended	
	30.9.2020	30.9.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest on bank borrowings	907	949
Interest on lease liabilities	6	12
	<u>913</u>	<u>961</u>
Total interest expenses	913	961
Bank charges	95	138
	<u>1,008</u>	<u>1,099</u>

6. PROFIT (LOSS) BEFORE TAXATION

	Six months ended	
	30.9.2020	30.9.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (loss) before taxation has been arrived at after charging:		
Operating lease rentals in respect of rented premises		
– minimum lease payments	597	501
– contingent rent	189	420
	<u>786</u>	<u>921</u>
Depreciation on		
– property, plant and equipment	356	729
– right-of-use assets	129	245
	<u>485</u>	<u>974</u>
Employee benefits expenses (including directors' remuneration)		
– salaries, allowances and benefits in kind	11,894	12,874
– retirement benefit scheme contributions	926	1,131
	<u>12,820</u>	<u>14,005</u>
Total staff costs	<u>12,820</u>	<u>14,005</u>

7. TAX EXPENSES

	Six months ended	
	30.9.2020	30.9.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong Profits Tax	<u>120</u>	<u>60</u>

Hong Kong Profits Tax is provided under the two-tiered tax rate at 8.25% on the first HK\$2 million and 16.5% of estimated assessable profits above HK\$2 million for the period.

8. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic and diluted earnings per share is based on the profit attributable to equity holders of the Company of HK\$1,174,000 (2019: loss of HK\$4,400,000) and on the number of shares of 1,245,331,256 (2019: 1,245,331,256) in issue during the period.

9. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 September, 2020 (2019: HK\$ Nil).

10. CONTRACT ASSETS

	30.9.2020 <i>HK\$'000</i> (unaudited)	31.3.2020 <i>HK\$'000</i> (audited)
Smart system construction service	18,518	23,065
Less: Loss allowance	(115)	(115)
	18,403	22,950

11. TRADE RECEIVABLES

The Group allows an average credit periods ranging from seven days to one month to its customers. For certain customers with long-established relationship and have good credit worthiness, a longer period may be granted.

	30.9.2020 <i>HK\$'000</i> (unaudited)	31.3.2020 <i>HK\$'000</i> (audited)
Trade debtors	19,538	18,988
Less: Loss allowance	(2,723)	(2,408)
	16,815	16,580

The following is an aged analysis of trade receivables presented based on the invoice date:

	30.9.2020 <i>HK\$'000</i> (unaudited)	31.3.2020 <i>HK\$'000</i> (audited)
Within 30 days	10,009	8,825
31 – 60 days	1,688	1,324
61 – 90 days	1,474	722
91 – 180 days	1,082	2,059
181 – 365 days	987	1,377
Over 365 days	4,298	4,681
	19,538	18,988

12. TRADE PAYABLES

The following is an aged analysis of trade payable presented based on the invoice date:

	30.9.2020 <i>HK\$'000</i> (unaudited)	31.3.2020 <i>HK\$'000</i> (audited)
0-30 days	2,009	4,621
31-60 days	68	3
61-90 days	18	87
Over 90 days	963	1,724
	<hr/> 3,058 <hr/>	<hr/> 6,435 <hr/>

The trade payables were due according to the terms stated in the relevant contracts. The average credit period ranged from 30 days to 60 days.

13. RELATED PARTY TRANSACTIONS

The Group had no transactions with its related parties during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September, 2020, the Group's revenue was HK\$89 million which represented a decrease of approximately 20% as compared with the HK\$111 million recorded for the corresponding period last year. The profit attributable to equity holders of the Company was HK\$1.2 million as compared to the loss of HK\$4.4 million for the six months ended 30 September, 2019. The turnaround from loss to profit was mainly attributable to the receipt of government subsidies of HK\$4.6 million as the result of the outbreak of the coronavirus disease.

Sales of mobile phones

During the period under review, the revenue was HK\$56 million, representing a decrease of 29% compared to the same period last year (2019: HK\$80 million) due to weak retail environment. The division recorded loss of HK\$1.4 million (2019: HK\$0.8 million).

Sales of IOT solutions

Due to the increase in sales of disinfection products including book sterilizers and UV-C disinfection machines, the revenue increased by 8% to HK\$31 million (2019: HK\$29 million). The division recorded profit of HK\$2.7 million compared with loss of HK\$2.6 million for the corresponding period last year.

Property investment

During the period under review, the rental income decreased by HK\$1 million to HK\$1.3 million (2019: HK\$2.3 million) due to granting of rental relief to our tenants and vacancy of investment properties. The division recorded loss of HK\$0.3 million compared with the profit of HK\$0.5 million to the same period last year.

PROSPECTS

Amid the uncertain economy and the retail environment, we will continue to strengthen our cost control and develop more products to meet market demand and to mitigate the negative impact upon our business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a healthy financial position. As at 30 September, 2020, the Group's cash and bank balances amounted to approximately HK\$14 million (31 March, 2020: HK\$17 million) while the bank borrowings were HK\$56 million (31 March, 2020: HK\$65 million). The Board believes that the Group has sufficient resources to satisfy its commitment and working capital requirements. The gearing ratio was 20% (31 March, 2020: 24%) which is expressed as a percentage of total borrowings to total equity.

EMPLOYEES

As at 30 September, 2020, the total number of employees of the Group was approximately 90 (31 March, 2020: 100) and the aggregate remuneration of employees (excluding directors' emoluments) amounted to HK\$10 million (2019: HK\$11 million). The remuneration and bonus packages of the employees are based on the individual merits and performance and are reviewed at least annually. The Group maintains a good relationship with its employees.

PLEDGE OF ASSETS

As at 30 September, 2020, the Group's general banking facilities were secured by (1) first legal charge on certain leasehold land and buildings with total carrying value of HK\$52,034,000 (31 March, 2020: HK\$52,034,000); (2) first legal charge on certain investment properties with total fair value of HK\$184,850,000 (31 March, 2020: HK\$184,850,000); (3) bank deposits of HK\$2,420,000 (31 March, 2020: HK\$2,000,000) and (4) financial assets at FVTPL with total fair value of HK\$594,000 (31 March, 2020: HK\$418,000) and (5) financial assets at FVTOCI of HK\$1,947,000 (31 March, 2020: HK\$1,947,000).

CONTINGENT LIABILITIES

As at 30 September, 2020, the Company had provided corporate guarantees of HK\$65 million (31 March, 2020: HK\$65 million) to secure the banking facilities granted to subsidiaries.

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

During the six months ended 30 September, 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the code provisions in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September, 2020, except the following provisions:

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairman and chief executive officer and Mr. Chan Chung Yee, Hubert currently holds both positions. The Board believes that vesting the roles of chairman and chief executive officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

Code Provision A.6.7 of the Code stipulates, among other things, that the independent non-executive directors and other non-executive directors should attend general meetings. Dr. Chu Chor Lup was unable to attend the annual general meeting of the Company held on 28 August, 2020 due to his other commitments.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standards set out in the Model Code during the six months ended 30 September, 2020.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting policies adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September, 2020.

APPRECIATION

The Board of the Company would like to extend its sincere gratitude to the Company's shareholders, business counterparts and all management and the staff members of the Group for their contribution and continued support during the period.

PUBLICATION AND DESPATCH OF INTERIM REPORT

The interim report of the Company for the six months ended 30 September, 2020 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and will be published on the Company's website at "www.hkc.com.hk" and the website of The Hong Kong Exchange and Clearing Limited at "www.hkexnews.hk" in due course.

On behalf of the Board
Chan Chung Yee, Hubert
Chairman

Hong Kong, 27 November, 2020

As at the date of this announcement, the Board comprises Mr. Chan Chung Yee, Hubert, Mr. Chan Chung Yin, Roy, Mr. Chan Ming Him, Denny, Mr. Wu Kwok Lam, Mr. Ip Man Hon and Mr. Lam Man Hau as executive directors and Mr. Chiu Ngar Wing, Dr. Chu Chor Lup and Dr. Law Ka Hung as independent non-executive directors.