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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, 2022

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, 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2022

		Six months ended	
		30 September,	
		2022	2021
	<i>Notes</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
		(unaudited)	(unaudited)
Revenue	3	97,085	112,786
Cost of sales		(81,504)	(91,980)
Gross profit		15,581	20,806
Other income, gains and losses	4	2,879	26
Fair value loss on financial assets at fair value through profit and loss (“FVTPL”)		(47)	(325)
Reversal of impairment on trade receivables and contract assets, net		215	12
Selling and distribution expenses		(1,653)	(2,081)
Administrative and other operating expenses		(14,898)	(19,977)
Finance costs	5	(1,245)	(1,280)

* For identification purpose only

		Six months ended	
		30 September,	
		2022	2021
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Profit (loss) before taxation	6	832	(2,819)
Tax expense	7	<u>(38)</u>	<u>(37)</u>
Profit (loss) for the period attributable to equity holders of the Company		794	(2,856)
Other comprehensive income (expense)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of overseas operations		<u>5,125</u>	<u>(298)</u>
Total comprehensive income (expense) attributable to equity holders of the Company		<u>5,919</u>	<u>(3,154)</u>
Earnings (loss) per share – (HK cents)			
– basic and diluted	8	<u>0.06 cents</u>	<u>(0.22) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER, 2022

		As at 30 September, 2022	As at 31 March, 2022
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		51,967	51,995
Investment properties		202,420	202,420
Financial assets at FVTPL		9,145	1,947
Financial assets at fair value through other comprehensive income ("FVTOCI")		8,235	8,235
		271,767	264,597
CURRENT ASSETS			
Inventories		18,360	15,874
Contract assets	10	68,489	44,466
Financial assets at FVTPL		395	442
Trade receivables	11	11,292	13,165
Prepayments, deposits and other receivables		10,906	13,548
Tax recoverable		61	210
Pledged bank deposits		2,625	2,620
Cash and bank balances		34,052	25,746
		146,180	116,071
CURRENT LIABILITIES			
Trade payables	12	1,789	3,366
Accruals and other payables	12	5,449	9,071
Contract liabilities		946	1,410
Lease liabilities		181	376
Bank borrowings		122,519	85,161
Tax payable		217	357
		131,101	99,741
NET CURRENT ASSETS		15,079	16,330

	As at 30 September, 2022 HK\$'000 (unaudited)	As at 31 March, 2022 HK\$'000 (audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	286,846	280,927
NON-CURRENT LIABILITIES		
Lease liabilities	75	75
Deferred tax liabilities	50	50
	125	125
NET ASSETS	286,721	280,802
CAPITAL AND RESERVES		
Share capital	12,453	12,453
Reserves	274,268	268,349
TOTAL EQUITY	286,721	280,802

NOTES ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2022

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

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial year beginning 1 April, 2022:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts: Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 cycle

The application of 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.

Segment results, assets and liabilities

The reportable segments for the six months ended 30 September, 2022 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	30,007	60,083	5,961	1,034	97,085
Reportable segment profit (loss)	259	2,369	(1,811)	63	880

Other segment information:

Amounts included in the measure of segment profit or loss or segment assets

Interest income from bank deposits	–	4	–	–	4
Finance costs	844	–	120	281	1,245
Depreciation	49	247	224	43	563
Reversal of impairment on trade receivables	–	560	–	–	560
Impairment loss on contract assets	–	345	–	–	345
Additions to non-current assets	405	–	2	–	407
Reportable segment assets	104,223	62,330	12,907	220,712	400,172
Reportable segment liabilities	106,401	2,659	4,300	17,816	131,176

The reportable segments for the six months ended 30 September, 2021 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	85,101	21,949	4,615	1,121	112,786
Reportable segment profit (loss)	1,501	(1,378)	(1,778)	(840)	(2,495)

Other segment information:

Amounts included in the measure of segment profit or loss or segment assets

Interest income from bank deposits	1	–	–	–	1
Finance costs	834	–	142	304	1,280
Depreciation	165	94	232	33	524
Reversal of impairment on trade receivables	–	12	–	–	12
Additions to non-current assets	234	111	371	–	716
Reportable segment assets	76,214	54,781	14,138	231,085	376,218
Reportable segment liabilities	70,732	9,078	4,584	23,000	107,394

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of fair value loss of financial assets at FVTPL, net exchange (loss) gain 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.

Geographic information

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographic location of the assets.

	Revenues from external customers		Non-current assets*	
	30.9.2022 <i>HK\$'000</i> (unaudited)	30.9.2021 <i>HK\$'000</i> (unaudited)	30.9.2022 <i>HK\$'000</i> (unaudited)	31.3.2022 <i>HK\$'000</i> (audited)
Hong Kong (place of domicile)	<u>91,124</u>	<u>107,997</u>	<u>242,470</u>	<u>242,111</u>
Mainland China	4,042	2,159	205	349
Singapore	1,919	2,419	11,712	11,955
Other countries in South East Asia	<u>–</u>	<u>211</u>	<u>–</u>	<u>–</u>
	<u>5,961</u>	<u>4,789</u>	<u>11,917</u>	<u>12,304</u>
	<u><u>97,085</u></u>	<u><u>112,786</u></u>	<u><u>254,387</u></u>	<u><u>254,415</u></u>

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

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

	Six months ended	
	30.9.2022 <i>HK\$'000</i> (unaudited)	30.9.2021 <i>HK\$'000</i> (unaudited)
REVENUE		
Reportable segment and consolidated revenue from external customers	<u>97,085</u>	<u>112,786</u>
PROFIT OR LOSS		
Reportable segment profit (loss)	880	(2,495)
Fair value loss of financial assets at FVTPL	(47)	(325)
Net exchange (loss) gain	<u>(1)</u>	<u>1</u>
Consolidated profit (loss) before taxation	<u><u>832</u></u>	<u><u>(2,819)</u></u>

	30.9.2022 <i>HK\$'000</i> (unaudited)	31.3.2022 <i>HK\$'000</i> (audited)
ASSETS		
Total reportable segment assets	400,172	370,044
Unallocated corporate assets	17,775	10,624
	<hr/>	<hr/>
Consolidated total assets	417,947	380,668
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Total reportable segment liabilities	131,176	99,816
Deferred tax liabilities	50	50
	<hr/>	<hr/>
Consolidated total liabilities	131,226	99,866
	<hr/> <hr/>	<hr/> <hr/>

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, GAINS AND LOSSES

	Six months ended	
	30.9.2022 <i>HK\$'000</i> (unaudited)	30.9.2021 <i>HK\$'000</i> (unaudited)
Government subsidies (<i>Note</i>)	1,498	22
Bank interest income	4	1
Dividend income	1,378	2
Net exchange (loss) gain	(1)	1
	<hr/>	<hr/>
	2,879	26
	<hr/> <hr/>	<hr/> <hr/>

Note:

During the six months ended 30 September, 2022, the Group recognised government subsidies of HK\$1,498,000, of which an amount of HK\$1,490,000 is related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund. The remaining HK\$8,000 is related to other subsidy scheme from Singapore government.

During the six months ended 30 September, 2021, the Group recognised government grants of HK\$22,000 in respect of COVID-19-related subsidies from Singapore government.

There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidiaries.

5. FINANCE COSTS

	Six months ended	
	30.9.2022	30.9.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest on bank borrowings	1,141	1,148
Interest on lease liabilities	5	8
	<u>1,146</u>	<u>1,156</u>
Total interest expenses	1,146	1,156
Bank charges	99	124
	<u>1,245</u>	<u>1,280</u>
	<u><u>1,245</u></u>	<u><u>1,280</u></u>

6. PROFIT (LOSS) BEFORE TAXATION

	Six months ended	
	30.9.2022	30.9.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit (loss) before taxation has been arrived at after charging:		
Depreciation on		
– property, plant and equipment	447	406
– right-of-use assets	116	118
	<u>563</u>	<u>524</u>
Employee benefits expenses (including directors' remuneration)		
– salaries, allowances and benefits in kind	6,844	12,508
– retirement benefit scheme contributions	1,010	1,072
	<u>7,854</u>	<u>13,580</u>
Total staff costs	7,854	13,580
Reversal of impairment on trade receivables	(560)	(12)
Impairment loss on contract assets	345	–
	<u><u>345</u></u>	<u><u>–</u></u>

7. TAX EXPENSE

	Six months ended	
	30.9.2022	30.9.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong Profits Tax	<u>38</u>	<u>37</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\$794,000 (2021: loss of HK\$2,856,000) and on the number of shares of 1,245,331,256 (2021: 1,245,331,256) in issue during the period.

The number of shares for the purpose of basic and diluted earnings (loss) per share are the same as the Company has no potential ordinary shares in both periods.

9. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 September, 2022 (2021: Nil).

10. CONTRACT ASSETS

	30.9.2022	31.3.2022
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Smart system construction service	69,190	44,822
Less: Loss allowance	<u>(701)</u>	<u>(356)</u>
	<u>68,489</u>	<u>44,466</u>

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.

	30.9.2022 <i>HK\$'000</i> (unaudited)	31.3.2022 <i>HK\$'000</i> (audited)
Trade debtors	13,585	16,018
Less: Loss allowance	(2,293)	(2,853)
	11,292	13,165

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

	30.9.2022 <i>HK\$'000</i> (unaudited)	31.3.2022 <i>HK\$'000</i> (audited)
Within 30 days	5,286	6,790
31 - 60 days	1,156	1,778
61 - 90 days	483	501
91 - 180 days	1,230	2,499
181 - 365 days	1,469	1,537
Over 365 days	3,961	2,913
	13,585	16,018

12. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	30.9.2022 <i>HK\$'000</i> (unaudited)	31.3.2022 <i>HK\$'000</i> (audited)
Trade payables	1,789	3,366
Accruals and other payables	5,449	9,071
	7,238	12,437

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

	30.9.2022	31.3.2022
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0 - 30 days	837	2,145
31 - 60 days	113	327
61 - 90 days	28	44
Over 90 days	811	850
	<u>1,789</u>	<u>3,366</u>

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

Key management personnel compensation

The remuneration of directors of the Company (who are also the key management) during the period were as follows:

	Six months ended	
	30.9.2022	30.9.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	2,027	2,829
Post-employment benefits	41	41
	<u>2,068</u>	<u>2,870</u>

The remuneration of directors of the Company is determined by the remuneration committee having regard to the performance of individual and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September, 2022, the Group's revenue was HK\$97 million which represented a decrease of approximately 14% as compared with the HK\$113 million recorded for the corresponding period last year. The profit attributable to equity holders of the Company was HK\$0.8 million as compared to the loss of HK\$2.9 million for the six months ended 30 September, 2021. The turnaround from loss to profit was mainly attributable to the receipt of government subsidies of HK\$1.5 million and increase in dividend income of HK\$1.4 million during the period under review.

Sales of mobile phones

During the period under review, the revenue was HK\$30 million, representing a decrease of 65% compared to the same period last year (2021: HK\$85 million) due to the weak demand. The division recorded profit of HK\$0.3 million (2021: HK\$1.5 million).

Sales of IOT solutions

During the period under review, the turnover was HK\$66 million (2021: HK\$27 million). The division recorded profit of HK\$0.6 million compared with the loss of HK\$3.2 million for the corresponding period last year.

Property investment

During the period under review, the rental income decreased by HK\$0.1 million to HK\$1.0 million (2021: HK\$1.1 million). The division recorded profit of HK\$0.1 million (2021: loss of HK\$0.8 million).

PROSPECTS

Regarding the mobile phone business, we are the authorised distributors of both Nokia and vivo brands. The sales for the second half of the year will largely depend upon the recovery progress of retail environment.

For IOT solutions segment, we expect that the turnover will be increased due to the implementation of new projects.

Regarding the property investment segment, the weak demand of the leasing market will affect both the rental level and occupancy rate.

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

As at 30 September, 2022, the Group's cash and bank balances amounted to approximately HK\$37 million (31 March, 2022: HK\$28 million) while the bank borrowings were HK\$123 million (31 March, 2022: HK\$85 million).

The Board believes that the Group has sufficient cash balances and banking facilities to satisfy its commitment and working capital requirements. The gearing ratio was 43% (31 March, 2022: 30%) which is expressed as a percentage of total borrowings to total equity.

EMPLOYEES

As at 30 September, 2022, the total number of employees of the Group was approximately 96 (31 March, 2022: 92) and the aggregate remuneration of employees (excluding directors' emoluments) amounted to HK\$6 million (2021: 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, 2022, 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\$49,909,000 (31 March, 2022: HK\$49,909,000); (2) first legal charge on certain investment properties with total fair value of HK\$192,000,000 (31 March, 2022: HK\$192,000,000); (3) bank deposits of HK\$2,625,000 (31 March, 2022: HK\$2,620,000) and (4) financial assets at FVTPL with total fair value of HK\$7,592,000 (31 March, 2022: HK\$2,389,000).

CONTINGENT LIABILITIES

As at 30 September, 2022, the Company had provided corporate guarantees of HK\$71 million (31 March, 2022: HK\$71 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, 2022, 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, 2022, 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 stipulates, among other things, that the independent non-executive directors and other non-executive directors should attend general meetings. Mr. Chiu Ngar Wing and Dr. Chu Chor Lup were unable to attend the annual general meeting of the Company held on 26 August, 2022 due to their other commitments.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) 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, 2022.

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, 2022.

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, 2022 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, 25 November, 2022

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.