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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 30TH SEPTEMBER, 2016**

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 30th September, 2016 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2016**

		Six months ended 30th September,	
	<i>Note</i>	2016	2015
		HK\$’000	HK\$’000
		(unaudited)	(unaudited)
Turnover	3	95,219	137,637
Cost of sales		(72,938)	(108,375)
Gross profit		22,281	29,262
Other income and gains	4	3,877	860
Other losses	5	(52)	(618)
Selling and distribution expenses		(2,889)	(4,029)
Administrative and other operating expenses		(25,678)	(23,978)
Finance costs	6	(1,055)	(856)

* For identification purpose only

	<i>Note</i>	Six months ended	
		2016	2015
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
(Loss)/profit before taxation	7	(3,516)	641
Tax expense	8	(95)	(120)
(Loss)/profit for the period attributable to equity holders of the Company		(3,611)	521
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of overseas operations		(490)	(451)
Available-for-sale financial assets:			
– Fair value loss during the period		–	(1,568)
– Reclassification adjustments transferred to profit or loss			
– Released upon disposal of available-for-sale financial assets		(3,398)	–
Other comprehensive expense for the period		(3,888)	(2,019)
Total comprehensive expense for the period		(7,499)	(1,498)
(Loss)/profit for the period attributable to equity holders of the Company		(3,611)	521
Total comprehensive expense for the period attributable to equity holders of the Company		(7,499)	(1,498)
(Loss)/earnings per share – (HK cents)			
– basic	9	(0.36) cents	0.07 cents*
– diluted	9	(0.36) cents	0.07 cents*

* Adjusted for the bonus share issue

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30TH SEPTEMBER, 2016

		As at 30th September, 2016	As at 31st March, 2016
	<i>Note</i>	HK\$'000 (unaudited)	<i>HK\$'000</i> <i>(audited)</i>
Non-current assets			
Property, plant and equipment		59,983	60,837
Investment properties		177,830	177,830
Available-for-sale financial assets		3,900	8,592
		<u>241,713</u>	<u>247,259</u>
Current assets			
Inventories		22,207	27,385
Financial assets at fair value through profit or loss		300	298
Gross amounts due from customers for contract work	11	40,219	40,208
Debtors, deposits and prepayments	12	31,991	40,936
Cash and bank balances		13,908	15,420
		<u>108,625</u>	<u>124,247</u>
Current liabilities			
Creditors, deposits received and accrued charges	13	12,841	22,282
Tax payable		95	65
Obligations under finance leases		2	25
Bank borrowings		71,772	77,129
		<u>84,710</u>	<u>99,501</u>
Net current assets		<u>23,915</u>	<u>24,746</u>
Total assets less current liabilities		<u>265,628</u>	<u>272,005</u>

	As at 30th September, 2016 <i>HK\$'000</i> (unaudited)	As at 31st March, 2016 <i>HK\$'000</i> (audited)
Non-current liabilities		
Obligations under finance leases	23	23
Deferred tax liabilities	168	168
	<u>191</u>	<u>191</u>
	<u>265,437</u>	<u>271,814</u>
Capital and reserves		
Share capital	9,963	7,970
Reserves	255,474	263,844
	<u>265,437</u>	<u>271,814</u>
Total equity	<u>265,437</u>	<u>271,814</u>

NOTES ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2016

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 31st March, 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to HKASs and HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 14	Regulatory Deferral Accounts
Amendment to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendment to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendment to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Amendment to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entitles: Applying the Consolidation Exception
Amendment to HKAS 1	Disclosure Initiative
Annual Improvements 2012 – 2014 Cycle	Amendments to a number of HKFRSs.

The application of the amendments to HKASs and HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these unaudited condensed consolidated financial statements:

Amendment to HKAS 12	Income Taxes ²
Amendments to HKAS 7	Statement of Cash Flows ²
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 9	Financial Instruments ¹
HKFRS 16	Leases ³
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1st January, 2018

² Effective for annual periods beginning on or after 1st January, 2017

³ Effective for annual periods beginning on or after 1st January 2019

⁴ Originally intended to be effective for annual periods beginning on or after 1st January 2016. The effective date has now been deferred.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have any significant impact on its results of operations and financial position.

3. TURNOVER/SEGMENT INFORMATION

Turnover 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 period ended 30th September, 2016 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>
Reportable segment revenue	<u>44,971</u>	<u>31,469</u>	<u>15,774</u>	<u>3,005</u>	<u>95,219</u>
Reportable segment (loss)/profit	<u>(4,728)</u>	<u>(1,419)</u>	<u>(1,730)</u>	<u>744</u>	<u>(7,133)</u>
Interest income from bank deposits	82	-	-	-	82
Finance costs	(358)	-	(136)	(561)	(1,055)
Depreciation for the period	(569)	(203)	(186)	(2)	(960)
Reportable segment assets	77,827	35,781	21,322	211,208	346,138
Additions to non-current assets during the period	63	35	18	-	116
Reportable segment liabilities	25,548	8,817	7,936	42,432	84,733

There were no inter-segment sales during the period ended 30th September, 2016.

The reportable segments for the period ended 30th September, 2015 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	73,747	42,888	17,680	3,322	137,637
Inter-segment sales	–	4,140	–	–	4,140
Reportable segment revenue	<u>73,747</u>	<u>47,028</u>	<u>17,680</u>	<u>3,322</u>	<u>141,777</u>
Reportable segment profit/(loss)	<u>405</u>	<u>1,123</u>	<u>(1,258)</u>	<u>989</u>	<u>1,259</u>
Interest income from bank deposits	160	–	–	–	160
Finance costs	(260)	–	–	(596)	(856)
Depreciation for the period	(592)	(257)	(202)	(1)	(1,052)
Reportable segment assets	72,587	63,611	62,612	167,674	366,484
Additions to non-current assets during the period	436	144	619	1	1,200
Reportable segment liabilities	21,322	5,709	8,287	45,936	81,254

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 gain on disposal of available-for-sale financial assets, fair value gain/(loss) of financial assets at fair value through profit or loss, net exchange 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**

	Six months ended		Non-current assets*	
	Revenues from external customers			
	30.9.2016	30.9.2015	30.9.2016	31.3.2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(audited)
Hong Kong (place of domicile)	78,629	119,957	206,150	208,914
Mainland China	6,905	14,206	29,973	27,972
Singapore	9,286	3,165	1,690	1,781
Other countries in South East Asia	399	309	–	–
	16,590	17,680	31,663	29,753
	95,219	137,637	237,813	238,667

* Non-current assets excluding available-for-sales financial assets.

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

	Six months ended	
	30.9.2016	30.9.2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
REVENUE		
Reportable segment revenue	95,219	141,777
Elimination of inter-segment revenue	–	(4,140)
Consolidated revenue	95,219	137,637
PROFIT OR LOSS		
Reportable segment (loss)/profit	(7,133)	1,259
Gain on disposal of available-for-sale financial assets	3,666	–
Fair value gain/(loss) of financial assets at fair value through profit or loss	3	(139)
Net exchange loss	(52)	(479)
Consolidated (loss)/profit before taxation	(3,516)	641

	30.9.2016 <i>HK\$'000</i> (unaudited)	31.3.2016 <i>HK\$'000</i> (audited)
ASSETS		
Reportable segment assets	346,138	362,616
Non-current financial assets	3,900	8,592
Unallocated corporate assets	300	298
	<hr/>	<hr/>
Consolidated total assets	350,338	371,506
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Reportable segment liabilities	84,733	99,524
Deferred tax liabilities	168	168
	<hr/>	<hr/>
Consolidated total liabilities	84,901	99,692
	<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 available-for-sale financial assets and financial assets at fair value through profit or loss.
- All liabilities are allocated to reportable segments other than deferred tax liabilities.

4. OTHER INCOME AND GAINS

	Six months ended	
	30.9.2016 <i>HK\$'000</i> (unaudited)	30.9.2015 <i>HK\$'000</i> (unaudited)
Gain on disposal of available-for-sale financial assets	3,666	–
Bank interest income	82	160
Dividend income from listed equity securities	2	152
Fair value gain of financial assets at fair value through profit or loss	3	–
Others	124	548
	<hr/>	<hr/>
	3,877	860
	<hr/> <hr/>	<hr/> <hr/>

5. OTHER LOSSES

	Six months ended	
	30.9.2016 <i>HK\$'000</i> (unaudited)	30.9.2015 <i>HK\$'000</i> (unaudited)
Net exchange loss	52	479
Fair value loss of financial assets at fair value through profit or loss	—	139
	<u>52</u>	<u>618</u>

6. FINANCE COSTS

	Six months ended	
	30.9.2016 <i>HK\$'000</i> (unaudited)	30.9.2015 <i>HK\$'000</i> (unaudited)
Interest on bank borrowings not wholly repayable within five years	<u>1,055</u>	<u>856</u>

7. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended	
	30.9.2016 <i>HK\$'000</i> (unaudited)	30.9.2015 <i>HK\$'000</i> (unaudited)
(Loss)/profit before taxation has been arrived at after charging:		
Operating lease rentals in respect of rented premises		
– minimum lease payments	797	879
– contingent rent	244	372
	1,041	1,251
Depreciation		
– owned assets	950	1,042
– leased assets	10	10
	960	1,052
Employee benefits expenses (including directors' remuneration)		
– salaries, allowances and benefits in kind	16,058	18,856
– retirement benefit scheme contributions	1,491	1,571
Total staff costs	<u>17,549</u>	<u>20,427</u>

8. TAX EXPENSE

	Six months ended	
	30.9.2016 <i>HK\$'000</i> (unaudited)	30.9.2015 <i>HK\$'000</i> (unaudited)
Hong Kong Profits Tax	<u>(95)</u>	<u>(120)</u>

Hong Kong Profits Tax is provided at the rate of 16.5% (2015: 16.5%) of the estimated assessable profits for the period.

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

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

	Six months ended	
	30.9.2016 <i>HK\$'000</i> (unaudited)	30.9.2015 <i>HK\$'000</i> (unaudited)
(Loss)/profit attributable to equity holders of the Company	<u>(3,611)</u>	<u>521</u>
	Number of shares	Number of shares (restated)
Basic		
Weighted average number of ordinary shares in issue less shares held for Share Award Plan for the purpose of calculating basic (loss)/earnings per share	<u>993,734,942</u>	<u>793,504,426*</u>
Diluted		
Weighted average number of ordinary shares in issue less shares held for Share Award Plan	993,734,942	793,504,426*
Effect of dilutive potential ordinary shares: Awarded shares	<u>2,530,080</u>	<u>3,507,611</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	<u>996,265,022</u>	<u>797,012,037</u>

* Adjusted for the bonus share issue

10. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2016 (2015: HK\$ Nil).

11. GROSS AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	30.9.2016 <i>HK\$'000</i> (unaudited)	31.3.2016 <i>HK\$'000</i> (audited)
Contract costs incurred	90,526	76,419
Recognised profits	26,148	18,957
	116,674	95,376
Progress billings	(76,455)	(55,168)
	40,219	40,208

The directors consider that the carrying amounts of gross amounts due from customers for contract work approximate to their fair values.

12. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period ranging from seven days to one month to its trade customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The ageing analysis of trade debtors of HK\$26,187,000 (31st March, 2016: HK\$31,711,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	30.9.2016 <i>HK\$'000</i> (unaudited)	31.3.2016 <i>HK\$'000</i> (audited)
Neither overdue nor impaired	3,977	13,207
Less than 1 month overdue	12,350	4,225
1 to 3 months overdue	3,971	1,826
More than 3 months overdue	5,889	12,453
	26,187	31,711

The directors consider that the carrying amounts of debtors, deposits and prepayments approximate to their fair value.

13. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

The ageing analysis of trade creditors of HK\$10,073,000 (31st March, 2016: HK\$14,582,000) which is included in the Group's creditors, deposit received and accrued charges is as follows:

	30.9.2016 <i>HK\$'000</i> (unaudited)	31.3.2016 <i>HK\$'000</i> (audited)
0-30 days	7,927	9,169
31-60 days	816	1,639
61-90 days	964	180
Over 90 days	366	3,594
	<hr/> 10,073 <hr/>	<hr/> 14,582 <hr/>

The directors consider that the carrying amounts of creditors, deposits received and accrued charges approximate to their fair value.

14. 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 30th September, 2016, the Group's revenue was HK\$95 million which represented a decrease of approximately 31% as compared with the HK\$138 million recorded for the corresponding period last year. The net loss attributable to equity holders was HK\$3.6 million (2015: profit of HK\$0.5 million).

Sales of mobile phones

During the period under review, the revenue was HK\$45 million, representing a 39% decrease compared to the same period last year (2015: HK\$74 million) due to the keen competition and lower market demand. The division recorded loss of HK\$4.7 million (2015: profit of HK\$0.4 million).

Sales of IOT solutions

The revenue decreased by 22% to HK\$47 million (2015: HK\$61 million) because less home automation projects were completed during the period under review. The division recorded loss of HK\$3.1 million (2015: HK\$0.1 million).

Property investment

The rental income slightly decreased from HK\$3.3 million to HK\$3 million and the profit of this division was HK\$0.7 million (2015: HK\$1 million).

PROSPECTS

Regarding the mobile phone business, we expect that keen competition will continue during the second half of the year.

In IOT solutions segment, we continue to strengthen our cost control and develop more products to meet market demand.

Regarding the property investment segment, we expect that the rental income will be stable. As at the date of this announcement, all of the Group's investment properties have been fully let.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a healthy financial position. As at 30th September, 2016, the Group's cash and bank balances amounted to approximately HK\$14 million (31st March, 2016: HK\$15 million) while the bank borrowings were HK\$72 million (31st March, 2016: HK\$77 million). The Board believes that the Group has sufficient resources to satisfy its commitment and working capital requirements. The gearing ratio was 27% (31st March, 2016: 28%) which is expressed as a percentage of total borrowings to total equity.

EMPLOYEES

As at 30th September, 2016, the total number of employees of the Group was approximately 130 (31st March, 2016: 160) and the aggregate remuneration of employees (excluding directors' emoluments) amounted to HK\$15 million (2015: HK\$18 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 30th September, 2016, 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\$56,302,000 (31st March, 2016: HK\$ 56,866,000); (2) first legal charge on certain investment properties with total fair value of HK\$139,500,000 (31st March, 2016: HK\$139,500,000); (3) bank deposits of HK\$2,463,000 (31st March, 2016: HK\$2,441,000); and (4) financial assets at fair value through profit and loss with total fair value of HK\$300,000 (31st March, 2016: HK\$298,000).

CONTINGENT LIABILITIES

As at 30th September, 2016, the Company had provided corporate guarantees of HK\$77 million (31st March, 2016: HK\$77 million) to secure the banking facilities granted to subsidiaries.

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

During the six months ended 30th September, 2016, 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 30th September, 2016, 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. Mr. Chiu Ngar Wing and Dr. Chu Chor Lup were unable to attend the annual general meeting of the Company held on 22nd August, 2016 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 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 30th September, 2016.

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 30th September, 2016.

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 30th September, 2016 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
HKC International Holdings Limited
Chan Chung Yee, Hubert
Chairman

Hong Kong, 25th November, 2016

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, Mr. Leung Shing Koon and Ms. Chow So Fan, Candy as executive directors and Mr. Chiu Ngar Wing, Dr. Chu Chor Lup and Dr. Law Ka Hung as independent non-executive directors.