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## **HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED**

**高銳中國物聯網國際有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1682)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016**

#### **UNAUDITED INTERIM RESULTS**

The board (the “Board”) of directors (the “Directors”) of Highlight China IoT International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries from time to time (collectively, the “Group”) for the six months ended 30 September 2016 (the “Period”) together with the comparative figures for the previous corresponding period.

The interim results of the Group have been reviewed by the Company’s auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The interim results of the Group have also been reviewed by the audit committee of the Company (the “Audit Committee”).

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

		For the six months ended 30 September	
	NOTES	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	3	53,184	99,623
Cost of sales		<u>(48,296)</u>	<u>(90,716)</u>
Gross profit		4,888	8,907
Other income		114	54
Other gains and losses	4	(28)	(817)
Selling and distribution costs		(1,111)	(7,151)
Administrative expenses		<u>(7,761)</u>	<u>(8,956)</u>
Loss before taxation		(3,898)	(7,963)
Income tax expense	5	<u>–</u>	<u>–</u>
Loss and total comprehensive expense for the period attributable to owners of the Company	6	<u><u>(3,898)</u></u>	<u><u>(7,963)</u></u>
Loss per share	8		
Basic (HK cents)		<u><u>(0.75)</u></u>	<u><u>(1.53)</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***At 30 September 2016*

		<b>30 September 2016</b>	31 March 2016
	<i>NOTES</i>	<i>HK\$'000</i> <b>(unaudited)</b>	<i>HK\$'000</i> <b>(audited)</b>
<b>Non-current asset</b>			
Property, plant and equipment	9	—	—
<b>Current assets</b>			
Inventories		3,764	4,140
Trade receivables	10	12,396	19,840
Deposits, prepayments and other receivables		30,751	30,244
Tax recoverable		880	—
Bank balances and cash		4,353	11,798
		<u>52,144</u>	<u>66,022</u>
<b>Current liabilities</b>			
Trade payables	11	7,350	24,302
Other payables and accruals		9,707	7,738
Amount due to the immediate holding company		20,462	10,000
Amount due to a former subsidiary		—	4,869
Tax payable		1,200	1,790
		<u>38,719</u>	<u>48,699</u>
<b>Net current assets</b>		<u>13,425</u>	<u>17,323</u>
<b>Total assets less current liabilities</b>		<u><u>13,425</u></u>	<u><u>17,323</u></u>
<b>Capital and reserves</b>			
Share capital		5,198	5,198
Reserves		8,227	12,125
<b>Total equity</b>		<u><u>13,425</u></u>	<u><u>17,323</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2016*

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange goods.

Except described below, the accounting policies and methods of computation used in these condensed consolidated financial statements for the six months ended 30 September 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016.

### **Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)**

In the current interim period, the Group has applied the following new and revised HKFRSs issued by the HKICPA for the first time in current period:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

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

### 3. SEGMENT INFORMATION

Management determines the operating segment based on the information reported to the Group's chief operating decision maker ("CODM"), being the executive directors of the Company. During the six months ended 30 September 2016 and 2015, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in the garment sourcing. Accordingly, there is only one operating and reportable segment.

### 4. OTHER GAINS AND LOSSES

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Net foreign exchange (loss) gain	(28)	264
Impairment loss on property, plant and equipment	—	(1,081)
	<u>(28)</u>	<u>(817)</u>

### 5. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is made for both periods since there was no assessable profit for both periods.

There is no significant unprovided deferred taxation for the reporting periods or at the end of the reporting periods.

### 6. LOSS FOR THE PERIOD

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Loss for the period has been arrived at after charging (crediting):		
Directors' remuneration	1,915	1,813
Other staff costs	1,767	3,512
Total staff costs	<u>3,682</u>	<u>5,325</u>
Cost of inventories sold	48,296	90,716
Depreciation of property, plant and equipment	—	230
Bank interest income (included in other income)	(114)	—
	<u>(114)</u>	<u>—</u>

## 7. DISTRIBUTIONS

No dividends were paid, declared or proposed during the current interim period. The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

## 8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	<b>For the six months ended 30 September</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Loss</b>		
Loss for the period attributable to owners of the Company for the purposes of basic loss per share	<b><u>(3,898)</u></b>	<b><u>(7,963)</u></b>
	<b>For the six months ended 30 September</b>	
	<b>2016</b>	<b>2015</b>
<b>Number of shares</b>		
Number of ordinary shares for the purposes of basic loss per share	<b><u>519,777,000</u></b>	<b><u>519,777,000</u></b>

No presentation of diluted loss per share for the six months ended 30 September 2016 and 2015 as there were no potential dilutive ordinary shares outstanding during both reporting periods.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2015, the Group recognised an impairment loss of approximately HK\$1,081,000 in relation to property, plant and equipment due to the continuous losses incurred by the Group. Management determined that there was no resale value for the assets (mainly comprise furniture, fixtures and equipment and leasehold improvements). Accordingly, the entire outstanding amounts of the property, plant and equipment had been impaired.

## 10. TRADE RECEIVABLES

The Group allows its trade customers a credit period of 30 to 150 days.

The following is an aged analysis of trade receivables, presented based on the invoice date at the end of each reporting period:

	<b>30 September</b> <b>2016</b> <i>HK\$'000</i>	31 March 2016 <i>HK\$'000</i>
0 – 30 days	5,264	7,591
31 – 60 days	7,003	5,793
61 – 90 days	42	5,518
91 – 120 days	–	393
Over 120 days	87	545
	<hr/> <b>12,396</b> <hr/>	<hr/> <b>19,840</b> <hr/>

## 11. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	<b>30 September</b> <b>2016</b> <i>HK\$'000</i>	31 March 2016 <i>HK\$'000</i>
0 – 60 days	5,771	13,005
61 – 90 days	1,576	6,077
Over 90 days	3	5,220
	<hr/> <b>7,350</b> <hr/>	<hr/> <b>24,302</b> <hr/>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the Period, the garment industry had operated in an environment full of challenges. The Group's customised out-sourcing capabilities continued to support the Group to cope with the global macro-economic pressure and the associated unfavourable consumer spending environment. The sluggish economies of Canada and Eurozone have weighed on consumer confidence and has led to persistently low sales, while the United States of America ("US"), the Group's major export destination, also showed weak demand.

According to the Major Shippers Report released by the US Department of Commerce, imports of apparel dropped by approximately 5.0% to approximately US\$61.6 billion during September 2015 to September 2016, as compared to the corresponding period last year. Although the US recorded soft rebound, retailers have become increasingly price cautious in order to remain resilient.

#### **Garment Sourcing Business**

It was full of challenges during the Period. As mentioned, for the six months ended 30 September 2016, the Group's revenue decreased by approximately 46.6% on a year-on-year basis to approximately HK\$53.2 million (2015: approximately HK\$99.6 million). The decrease was mainly attributable to the modest economy recovery of the US that continued to weigh on buyers' confidence and made retailers particularly cautious in placing orders.

Gross profit decreased by approximately 45.1% to approximately HK\$4.9 million (2015: approximately HK\$8.9 million) with gross profit margin improved from approximately 8.9% to approximately 9.2%.

Loss attributable to owners of the Company was approximately HK\$3.9 million (2015: approximately HK\$8.0 million).

Loss and total comprehensive expenses attributable to owners of the Company for the Period, being the same as loss attributable to owners of the Company as there was no other comprehensive income or expense in the periods, amounted to approximately HK\$3.9 million (2015: approximately HK\$8.0 million), representing a decrease of approximately 51.0%. The decrease was primarily due to the decrease in selling and distribution costs and administrative expenses resulted from the reduction in headcounts and sample making, that compensated the decrease in gross profit.

### **PROSPECTS**

The Group, with its healthy financial position, will continue to serve as a garment sourcing management supplier by providing value-added services such as material sourcing, product design and development, sampling and logistic arrangement.

The Group will evaluate a variety of new investment projects and formulate feasible business strategies with a view to developing a sustainable corporate strategy to broaden the Group's income stream, which may include rebalancing the resources of the Group should appropriate opportunities arise.

The Board is also keeping eyes open for new business opportunities which can enhance the financial position of the Group. We will do our best to deliver better return to the shareholders of the Company (the "Shareholders").

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

The Group maintained a healthy financial position for the Period with cash and cash equivalents amounting to approximately HK\$4.4 million as at 30 September 2016 (as at 31 March 2016: approximately HK\$11.8 million).

As at 30 September 2016, the Group's gearing ratio, being net debt (represented by bank borrowings net of cash and cash equivalents) divided by shareholders' equity, was zero (31 March 2016: zero), as the Group did not have any bank borrowings as at 30 September 2016. The Group's current ratio, being total current assets divided by total current liabilities, was approximately 1.3 (31 March 2016: 1.4).

For the six months ended 30 September 2016 and as at 30 September 2016 and the corresponding period in 2015, the Group had no bank borrowings.

### **Foreign Exchange and Risk Management**

The Group's working capital is mainly financed through internal generated cash flows. The management of the Group regularly monitors the funding requirements of the Group to support its operations and its development plans. Most of the Group's cash balances were deposits in US dollars ("US\$") and Hong Kong dollars ("HK\$") with major global financial institutions and most of the Group's monetary assets, revenues, monetary liabilities and payments were held in US\$ and HK\$.

Foreign exchange risks arising from sales and purchases transacted in different currencies may be managed by the Group through the use of foreign exchange forward contracts. Pursuant to the Group's policy in place, foreign exchange forward contracts or any other financial derivatives contracts may be entered into by the Group for hedging purpose. The Group had not entered into any financial derivative contract in the Period and had no outstanding financial derivative contracts as at 30 September 2016.

### **Capital Expenditure and Commitments**

During the Period, the Group did not have any material investment in property, plant and equipment.

As at 30 September 2016, the Group had no commitment (as at 31 March 2016: Nil) in respect of acquisition of new machineries and no significant capital commitments.

As at the date of this announcement, the Group had no plan for any material investment or capital assets.

## **Charges on Assets**

As at 30 September 2016, the Group had no pledged assets.

## **Contingent Liabilities**

The Group did not have contingent liabilities as at 30 September 2016.

## **Important events affecting the Group after the reporting period**

No important events affecting the Group have taken place since 30 September 2016 and up to the date of this announcement.

## **Interim Dividends**

The Board has resolved not to declare any interim dividend for the Period (for the six months ended 30 September 2015: Nil).

## **Significant investments, material acquisitions and disposals**

For the six months ended 30 September 2016, there was no material investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group.

## **Employee Information**

As at 30 September 2016, the Group employed approximately 10 employees (excluding Directors). The Group offers its employees competitive remuneration schemes which are generally structured with reference to market terms and individual qualifications. Salaries and wages are normally reviewed annually based on performance appraisals and other relevant factors. In addition, bonuses are normally paid to those eligible based on the Group's and individual's performance. The Group incurred staff costs (excluding Directors' remuneration) of approximately HK\$1.77 million for the six months ended 30 September 2016. The Group encourages its staffs to attend training courses which can achieve self-improvement and enhance their skill and knowledge.

The Company maintains a share option scheme, pursuant to which share options may be granted to selected eligible participants including employees of the Group, with a view to providing those eligible participants with appropriate incentive to contribute to the success of the Group.

Throughout the six months ended 30 September 2016 and as at 30 September 2016, there was no outstanding share option.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2016.

## **CORPORATE GOVERNANCE CODE**

The Company had complied with all the code provisions ("Code Provisions") under the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 September 2016, except for the following deviation:

Code Provision E.1.2 requires that the chairman of the board of the company should attend the annual general meeting. The chairman of the Board, Mr. Gao Zhiyin, was unable to attend the Company's annual general meeting held on 23 September 2016 (the "2016 AGM") due to his other business engagements. Mr. Shi Jiguo, an executive Director, acted as the chairman of the 2016 AGM in accordance with the bye-laws of the Company. The chairperson of the Audit Committee and remuneration committee of the Company, and the external auditor of the Company attended the 2016 AGM to be available to answer any question to ensure effective communication with the Shareholders.

## **AUDIT COMMITTEE**

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lam Kai Yeung (chairman), Mr. Lau Chi Kit and Mr. Ma Ming. It was established by the Board on 8 September 2010 and its duties are clearly defined in its revised written terms of reference which have been prepared and adopted according to the Code Provisions.

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 September 2016.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has established a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Having made specific enquiries to the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 September 2016.

## **APPRECIATION**

In closing, on behalf of the Board, I would like to take this opportunity to express my sincere thanks and gratitude to our management team and employees for their commitments, hard work and loyalty to the Group during the Period.

I would also like to extend my deepest thanks to our customers, bankers, business partners and Shareholders for their continual support.

By Order of the Board  
**Highlight China IoT International Limited**  
**Gao Zhiyin**  
*Chairman*

Hong Kong, 29 November 2016

*As at the date of this announcement, the Board comprises Mr. Gao Zhiyin, Mr. Gao Zhiping and Mr. Shi Jiguo as executive Directors; Mr. Lau Chi Kit, Mr. Lam Kai Yeung and Mr. Ma Ming as independent non-executive Directors; and Mr. Shum Ngok Wa as a non-executive Director.*