

HKC INTERNATIONAL HOLDINGS LTD :
THE ROT HAS STARTED, FOLKS

One has to look very carefully through the Placing-and-Public-Offer Prospectus, but the evidence is there: The rot has started; and, it may be viewed by all.

The recently issued Prospectus, to which TARGET is referring, is that of HKC International Holdings Ltd, known as Stock Code Number 248 of the Main Board of The Stock Exchange of Hongkong Ltd.

The 'rot' to which TARGET is referring is the Contribution to the Operating Profit of the Company from the Sale of mobile telephones and accessories.

While it is fact that HKC International has logged in a 94-percent increase in sales of mobile telephones and accessories for the 2001 Financial Year over the previous Year, the Contribution to the Operating Profit from such activities actually fell, Year-on-Year, from the 2000 figure of about \$HK28.81 million to the 2001 figure of about \$HK25.41 million.

So, TARGET repeats: The rot has started.

HKC International describes itself, at Page One of the Prospectus, as being '*principally engaged in the sale and distribution of "Nokia" and "Alcatel" branded mobile phones and related accessories as well as Nitsuko, NEC and Aiphone branded office telephone systems in Hongkong (the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC)) and Singapore through its extensive distribution network.*'

Sales of mobile telephones and related accessories are the '*bread and butter*' of this Company because, for the past 3 Financial Years, ended March 31, 2001, sales of such items represented 74.60 percent, 78.50 percent and 87.70 percent of the Turnover, respectively.

Sales of office telephone systems, during these 3 Years, represented about 13.20 percent, 10.30 percent and 5.70 percent of the Turnover, respectively.

Sales of office telephone systems are fast falling, to be sure, while sales of mobile telephones and related accessories are fast rising.

But, regardless of the fast-moving sales of mobile telephones and accessories, intense competition in the HKSAR marketplace is shaving Profit Margins to the bone. (Page 99 of the Prospectus)

For the past 3 Financial Years, this Company has done reasonably well, but nothing about which to boast.

The following table is taken from the Prospectus, at Page 93, with the exception of TARGET's calculations in respect of Profit Margins:

	Financial Year ended March 31		
	1999	2000	2001
	All Figures are Denominated in \$HK'000 (Except Where Indicated)		
Turnover	285,907	400,286	739,544
Cost of Sales	(238,736)	(314,064)	(636,846)
Gross Profit	47,171	86,222	102,698
Gross Profit Margin	16.50 percent	21.54 percent	13.89 percent
Other Revenue	1,588	1,626	1,322

Selling and Distribution Costs	(6,008)	(11,187)	(13,930)
Administrative Expenses	(37,518)	(37,556)	(44,183)
Profit from Operations	5,233	39,105	45,907
Financing Costs	(426)	(291)	(213)
Profit before Taxation	4,807	38,814	45,694
Taxation	(273)	(6,536)	(7,599)
Profit before Minority Interests	4,534	32,278	38,095
Minority Interests	(257)	(2,864)	(3,770)
Profit Attributable to Shareholders	4,277	29,414	34,325
Net Profit Margin	1.50 percent	7.34 percent	4.64 percent

The Net Profit Margin has been shaved by about 37 percentile points between the 2000 Financial Year and the 2001 Financial Year, the figures indicate.

Note 3, located at Page 99 of the Prospectus, gives a breakdown of the Turnovers of the past 3 Years and the Contribution to the Operating Profits for these Years as follows:

Turnover

	Financial Year ended March 31		
	1999	2000	2001
	All Figures are Denominated in \$HK'000		
Sale of Goods	250,948	355,586	690,389
Repair Service	406	657	1,082
Installation Service	5,002	5,333	4,463
Maintenance Service	10,265	9,330	9,832
Connection Service	15,484	23,851	27,866
Consultancy Service	Nil	2,981	3,626
Rental Income	3,802	2,548	2,286
TOTAL	285,907	400,286	739,544

Contribution to Profit/(Loss) from Operations

	Financial Year ended March 31		
	1999	2000	2001
	All Figures are Denominated in \$HK'000		
Sale of Goods	3,412	28,812	25,413
Repair Service	167	525	752
Installation Service	(350)	552	(150)
Maintenance Service	2,090	1,441	1,594
Connection Service	(3,218)	4,614	14,332
Consultancy Service	Nil	1,381	2,098
Rental Income	3,132	1,780	1,868
TOTAL	5,233	39,105	45,907

It is only too apparent that the dramatic increase ... [CLICK TO ORDER FULL ARTICLE](#)

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