



Hi-Level Technology Holdings Limited
揚宇科技控股有限公司

Stock Code: 8113

2016

First Quarterly Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole part of the contents of this report.

*This report, for which the directors (the “**Directors**”) of Hi-Level Technology Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the listing of Securities on the GEM (the “**Gem Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

FINANCIAL HIGHLIGHTS

The Group recorded a revenue of approximately HK\$335,281,000 for the three months ended 31 March 2016 (Three months ended 31 March 2015: approximately HK\$242,918,000).

Profit attributable to owners of the Company for the three months ended 31 March 2016 amounted to approximately HK\$4,214,000 (Three months ended 31 March 2015: approximately HK\$2,755,000).

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2016.

The board of Directors of the Company (the “**Board**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the three months ended 31 March 2016 together with last year’s comparative figures are as follows:

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

For the three months ended 31 March 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	3	335,281	242,918
Cost of sales		(322,710)	(233,959)
Gross profit		12,571	8,959
Other income		99	18
Distribution costs		(864)	(780)
Administrative expenses		(6,236)	(4,875)
Interest on bank borrowings wholly repayable within five years		(225)	(160)
Profit before taxation		5,345	3,162
Income tax expense	4	(1,131)	(407)
Profit for the period	6	4,214	2,755
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign subsidiaries operations		(632)	–
Total comprehensive income for the period		3,582	2,755
Earnings per share (HK cents)	7		
— Basic		0.71	0.61
— Diluted		0.70	0.61

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2016

	Share capital	Share premium	Special reserve	Translation reserve	Dividend reserve	Shareholder's contribution reserve	Share option reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	-	-	25,000	1,304	40,000	373	-	21,852	88,529
Profit for the period	-	-	-	-	-	-	-	4,214	4,214
Exchange differences arising on translation of foreign subsidiaries operations	-	-	-	(632)	-	-	-	-	(632)
Total comprehensive income for the period	-	-	-	(632)	-	-	-	4,214	3,582
Special dividend paid	-	-	-	-	(40,000)	-	-	-	(40,000)
Recognition of equity-settled share-based payment	-	-	-	-	-	19	669	-	688
Issue of new shares by way of placing	1,500	45,000	-	-	-	-	-	-	46,500
Share issue expenses	-	(4,820)	-	-	-	-	-	-	(4,820)
Capitalization issue	4,500	(4,500)	-	-	-	-	-	-	-
At 31 March 2016	6,000	35,680	25,000	672	-	392	669	26,066	94,479
At 1 January 2015	-	-	25,000	1,545	-	92	-	55,335	81,972
Profit for the period	-	-	-	-	-	-	-	2,755	2,755
Total comprehensive income for the period	-	-	-	-	-	-	-	2,755	2,755
At 31 March 2015	-	-	25,000	1,545	-	92	-	58,090	84,727

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 September 2015 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**GEM Board**”) on 7 January 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

Except as for the adoption of new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which are effective for the Group’s financial year beginning 1 January 2016, the accounting policies applied in preparing this unaudited condensed consolidated financial information for the three months ended 31 March 2016 are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective. The application of these new and revised HKFRSs is not expected to have material impact on the condensed financial information of the Group.

3. REVENUE

Revenue represents the sales of electronics products to external parties. The following is an analysis of the Group’s revenue by the geographical locations of customers.

	Revenue by geographical market	
	Three months ended 31 March	
	2016	2015
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
The PRC	280,305	218,087
Hong Kong	53,313	24,408
Taiwan	1,651	415
Others	12	8
	335,281	242,918

Revenue from customers individually contributing over 10% of the Group's revenue is as follows:

	Revenue from customers Individually contributing over 10% of the Group's revenue	
	Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	44,821	53,731
Customer B	34,275	4,312
Customer C	N/A*	20,954

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

4. INCOME TAX EXPENSE

The amount of income tax charged to the profit or loss represents:

	Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong profits tax	1,103	407
PRC Enterprise Income Tax	28	–

Hong Kong profits tax has been provided at the rate of 16.5% (Three months ended 31 March 2015: 16.5%) on the estimated assessable profit during the period arising in or derived from Hong Kong. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (Three months ended 31 March 2015: 25%).

5. INTERIM DIVIDEND

The board does not recommend the payment of interim dividend for the three months ended 31 March 2016 (Three months ended 31 March 2015: Nil). A special dividend in respect of the year ended 31 December 2015 of HK\$1.60 per share, or in aggregation of HK\$40,000,000, was declared by Hi-Level Technology Limited, the wholly-owned subsidiary of the Company, to its then shareholders conditionally upon listing of the shares of the Company and was paid by Hi-Level Technology Limited to its then shareholders on 7 January 2016.

6. PROFIT FOR THE PERIOD

	Three months ended 31 March	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' salary	250	–
Staff costs:		
Salaries and other allowances	2,666	2,753
Retirement benefit scheme contributions	622	316
Share-based payment expenses (<i>note</i>)	688	–
Total staff costs	4,226	3,069
Auditor's remuneration	254	45
Bank interest income	(18)	(8)
Net exchange gain	(81)	(7)
Cost of inventories recognised as an expense	314,416	227,888
Allowance for trade receivables	–	699
Depreciation of property, plant and equipment	53	146
Operating lease rental in respect of offices and warehouses paid/payable to		
— third parties	280	280
— substantial shareholder and its subsidiaries	127	–
— immediate holding company	–	96
— fellow subsidiaries	–	33

Note: It represents capital contribution of HK\$19,000 arising from the share options granted to the employees of the Group under the share option scheme of S.A.S. Dragon Holdings Limited ("S.A.S. Dragon") and HK\$669,000 arising from the Pre-IPO Share Option Scheme of the Company during the period.

7. EARNINGS PER SHARE

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

	Three months ended 31 March	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit for the period attributable to owners of the Company, for the purpose of basic and diluted earnings per share	4,214	2,755
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	590,110	450,000
Effect of dilutive potential ordinary shares in respect of share options ('000)	14,620	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	604,730	450,000

INTERIM DIVIDEND

The board does not recommend the payment of interim dividend for the three months ended 31 March 2016 (Three months ended 31 March 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is an independent design house (“IDH”), primarily engaged in the sale of electronic components (mainly integrated circuit (“IC”) and panels) for consumer electronic products such as electronic learning aid (“ELA”), mobile internet device (“MID”), set-top box, multi-media player and video image device together with the provision of IDH services to original brand manufacturers and original design manufacturers.

Although the first quarter is traditionally a low season for consumer electronic products, our sales to ELA, MID and set-top box customers achieved significant growth compared with the corresponding period of last year. During the period under review, the Group successfully promoted Innolux panels to the Lenovo tablet supply chain. Also, along with the popularity of digital televisions, our set-top box customers adopted Rockchip IC solutions for Huawei, Alibaba and their home entertainment products. Therefore, revenue of the Company for the first quarter increased 38.0% as compared with the corresponding period of last year.

OUTLOOK

Despite the deceleration of economic growth in China, the Company is positive in our business developments in 2016.

We expect educational products will enter into a rapid growth trend in the next few years. For the second quarter, our ELA customers will enter its peak production season, we expect our sales of Innolux panel solutions will record significant growth in second quarter when comparing with the corresponding period of last year.

Regarding to hi-resolution digital audio player devices, the earphone of the next generation high end smartphone will adopt new specifications on audio function, we predict that there will be large demand of our Cirrus Logic digital audio decoders solutions soon.

In 2016, the Group will also allocate more resources on other focus products, such as wearable device, smart sweeping robot, drone and the virtual reality headset products.

FINANCIAL REVIEW

Revenue

For the three months ended 31 March 2016, the Group achieved sales revenue of HK\$335,281,000 increased approximately 38.0% from HK\$242,918,000 recorded in the corresponding period of 2015. The increase was primarily attributable to our increased sales to ELA, MID and set-top box customers.

Gross Profit

Gross profit for the three months ended 31 March 2016 was HK\$12,571,000 increased approximately 40.3% from HK\$8,959,000 recorded in the corresponding period of 2015. Gross profit margin was 3.75%, increased from 3.68% recorded in the corresponding period of 2015.

Distribution Costs and Administrative Expenses

The Group's operating costs for the reporting period were HK\$7,100,000 (2015: HK\$5,655,000), representing an increase of approximately 25.6% compared to the corresponding period in 2015. This was mainly attributable to the increase in operating expenses such as transportation and logistics charge, audit fee and compliance advisor fee incurred during the period under review.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company for the three months ended 31 March 2016 was HK\$4,214,000 increased by approximately 53.0% as compared with HK\$2,755,000 recorded in the corresponding period of 2015, which was mainly attributable to the increase in revenue during the period under review.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2016, the directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Long positions in shares

Ordinary shares of HK\$0.01 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Yim Yuk Lun, Stanley <i>JP</i> (<i>Note 1</i>)	Beneficial owner and interest in controlled corporation	224,395,861	37.40
Chang Wei Hua (<i>Note 2</i>)	Interest in controlled corporation	76,247,000	12.70
Wei Wei (<i>Note 3</i>)	Interest in controlled corporation	76,247,000	12.70
Lau Ping Cheung	Beneficial owner	100,800	0.02
Tong Sze Chung	Beneficial owner	144	0

Notes:

1. Mr. Yim Yuk Lun, Stanley JP beneficially owns 19,382,861 Shares and is the controlling shareholder of S.A.S. Dragon; he is therefore under the SFO deemed to be interested in 205,013,000 Shares held by S.A.S. Investment Company Limited (“**S.A.S. Investment**”) which is a wholly-owned subsidiary of S.A.S. Dragon.
2. These shares are held by Vertex Value Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Mr. Chang Wei Hua.
3. These shares are held by Victory Echo Holdings Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Mr. Wei Wei.

SHARE OPTIONS

S.A.S. Dragon share option scheme

Pursuant to a resolution of S.A.S. Dragon, the ultimate holding company of the Company passed on 27 July 2012, S.A.S. Dragon adopted a share option scheme (the “**Scheme**”) for recognition of past services contributed by, and giving incentives to the eligible participants, including directors, non-executive directors, employees, shareholders, suppliers and customers of S.A.S. Dragon and any of its subsidiaries.

According to the Scheme, the board of directors of S.A.S. Dragon may at their discretion grant options to directors, executives and employees of S.A.S. Dragon and its subsidiaries to subscribe for shares in S.A.S. Dragon.

On 25 September 2014, there were share options granted to directors or employees of entities comprising the Group under the Scheme. The following tables disclose movements in the share options granted to the employees of the Group under the Scheme during the three months ended 31 March 2016:

Date of grant	Vesting period	Exercisable period	Exercise price per share	Outstanding at 31 March 2016
25.9.2014	25.9.2014 to 24.9.2015	25.9.2015 to 24.9.2017	HK\$2.60	437,000
25.9.2014	25.9.2014 to 24.9.2016	25.9.2016 to 24.9.2017	HK\$2.60	437,000
				<hr/> 874,000 <hr/>

Share options granted in September 2014 under the Scheme are exercisable during the period from 25 September 2015 to 24 September 2017 in two batches.

Pre-IPO share option scheme of the Company

Pursuant to the written resolutions of the sole shareholder of the Company passed on 11 October 2015 (the “Resolutions”), the Company has adopted a Pre-IPO Share Option Scheme (the “Pre-IPO Share Option Scheme”).

Under which, share options are granted to directors (including non-executive directors) and employees to the Group and the connected persons of the Company (the “Grantees”). The Pre-IPO Share Option Scheme was terminated on 7 January 2016. Upon termination of the Pre-IPO Share Option Scheme, no further share option was granted but in all other respects the provisions of the Pre-IPO Share Option Scheme is remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme, and share options which were granted prior to such termination are continued to be valid and exercisable in accordance with the provisions of the Pre-IPO Share Option Scheme and their terms of issue.

As at 11 October 2015, options to subscribe for an aggregate of 60,000,000 shares of the Company, representing 10% of the issued share capital of the Company immediately following the completion of the Placing (as defined in the Prospectus), at an exercise price of HK\$0.31 per share of the Company, have been granted pursuant to the Pre-IPO Share Option Scheme. Each of the Grantees has paid HK\$1 to the Company on acceptance of the offer for the grant of option. Pursuant to the Resolutions, Grantees may exercise 50% of such options granted for two years commencing from the first anniversary of 7 January 2016 (the “Listing Date”) of the Company and the remaining 50% for one year commencing from the second anniversary of the Listing Date. The share-based payment in respect of such options is amortised over the vesting periods from 11 October 2015 to 6 January 2017 and 11 October 2015 to 6 January 2018 and approximately HK\$669,000 has been charged to profit or loss for the period.

A summary of the movements of the outstanding share options during the three months ended 31 March 2016 were as follows:

Grantee	Options granted as at 11 October 2015	Number of options outstanding at 31 March 2016
<i>Directors</i>		
Chang Wei Hua	600,000	600,000
Wei Wei	600,000	600,000
Tong Sze Chung	600,000	600,000
Lau Ping Cheung	600,000	600,000
Shea Chun Lok, Quadrant	600,000	600,000
Fung Cheuk Nang, Clement	600,000	600,000
Tsoi Chi Ho, Peter	600,000	600,000
<i>Others</i>		
Employees and connected persons	55,800,000	55,800,000
	60,000,000	60,000,000

The fair value for total share options granted to directors, employees and connected persons were amounted to HK\$223,912 and HK\$2,047,195 respectively and was calculated using the Binomial option pricing model.

The inputs into the model were as follows:

Grant date share price	HK\$0.27
Exercise price	HK\$0.31
Option life	3.24 years
Risk free rate	0.611%
Volatility	33.507%
Dividend yield	3.704%

The stock price adopted is the lower bound of IPO price based on management decision. The Option life is the period commencing from the grant date 11 October 2015 and ending on the expiry date 6 January 2019. The risk-free interest rate was determined with reference to the yield rate of with reference to the Hong Kong Sovereign Curve with duration similar to the expected life of the options. The expected volatility is based on the historical volatility of comparable companies on publicly available information. The dividend yield is estimated based on the management's estimation.

The options were expected to be exercised by the grantees when the share price of the underlying security of the options rises to 280% (directors) and 220% (employee) of the exercise price.

Share option scheme of the Company

The share option scheme was conditionally approved and adopted pursuant to a resolution in writing passed by the shareholders of the Company on 23 December 2015, which became effective on the Listing Date. A summary of the principal terms of the share option scheme is set out in Appendix IV to the prospectus of the Company dated 31 December 2015.

No options was granted by the Company under the share option scheme during the period.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the three months ended 31 March 2016 was the Company, any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

At 31 March 2016, the following persons (not being the directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in shares

Ordinary shares of HK\$0.01 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
S.A.S. Dragon	Interest in controlled corporation	205,013,000	34.17
S.A.S. Investment	Beneficial owner	205,013,000	34.17

Note: S.A.S. Dragon deemed to be interested in the 205,013,000 Shares held by S.A.S. Investment, a wholly owned subsidiary of S.A.S. Dragon.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Alliance Capital Partners Limited (“Alliance”), compliance adviser of the Company, Alliance had 1,400,000 shares of the Company as at 31 March 2016.

Save as disclosed above, neither Alliance nor any of its close associates and none of the directors or employees of Alliance had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 March 2016.

Pursuant to the agreement dated 29 December 2015 entered into between Alliance and the Company, Alliance received and will receive fees for acting as our Company's compliance adviser.

USE OF PROCEEDS

During the period, the Company has offered 150,000,000 shares for subscription by way of placing and raised net proceeds of approximately HK\$30 million. Up to the reporting date, the net proceeds from the listing were not utilized.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Throughout the period from the Listing Date to 31 March 2016, the Group has complied with the applicable code provisions in the Corporate Governance Code as contained in Appendix 15 to the GEM Listing Rules (the “**CG Code**”) except for the following deviation:

Under the code provision A.1.8 of the CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular and timely communications among the Directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the Directors can be handled effectively, and the possibility of actual litigation against the Directors is very low. The Company will consider to make such an arrangement as and when it thinks necessary.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and policies adopted by the Group and the unaudited consolidated financial statements for the three months ended 31 March 2016.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct (the “**Code of Conduct**”) regarding securities transactions by the Directors. All Directors, after specific enquiries by the Company, confirmed to the Company their compliance with the Code of Conduct throughout the three months ended 31 March 2016.

APPRECIATION

On behalf of the Board of Directors, I would like to thank all our employees for their contribution and commitments. I also wish to extend my sincere gratitude to our shareholders, customers, suppliers and business partners for their long-term supports and dedication in the first quarter of 2016.

On behalf of the Board
Hi-Level Technology Holdings Limited
Yim Yuk Lun, Stanley JP
Chairman

Hong Kong, 12 May 2016

As at the date of this report, the Board comprises four executive directors are Mr. Yim Yuk Lun, Stanley JP, Mr. Chang Wei Hua, Mr. Wei Wei and Mr. Tong Sze Chung; one non-executive Director is Mr. Lau Ping Cheung and three independent non-executive directors are Mr. Shea Chun Lok, Quadrant, Mr. Fung Cheuk Nang, Clement and Mr. Tsoi Chi Ho, Peter.