



PFC Device Inc.
節能元件有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 8231

FIRST
QUARTERLY
REPORT
2017

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.

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This report, for which the directors (the “Directors”) of PFC Device Inc. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects 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 HIGHLIGHT

- The Group's revenue amounted to US\$5.3 million for the three months ended 31 March 2017, representing a decrease of US\$0.3 million or 5% as compared with the three months ended 31 March 2016.
- Loss attributable to the owners of the Company for the three months ended 31 March 2017 was approximately US\$0.5 million (three months ended 31 March 2016: US\$0.2 million). The increase in net loss was mainly attributable to various factors including (1) for the segment of sales of power discrete semiconductors, a strategy to further penetrate the People's Republic of China market which has resulted in lowering of average sales prices of its semiconductor products and gross profit margin; (2) lower turnover in trading of raw materials which has a relatively higher gross profit margin; and (3) increased administrative expenses primarily due to higher headcount and increased staff expenses including share option expenses incurred in the period.
- The Board did not declare the payment of interim dividend for the three months ended 31 March 2017.

FIRST QUARTERLY RESULTS

The board of Directors (“the Board”) of the Company is pleased to announce the unaudited condensed consolidated first quarterly results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the three months ended 31 March 2017, together with the comparative audited figures for the corresponding period in 2016, as follows :

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2017

		Three months ended	
		31 March	
	<i>Notes</i>	2017	2016
		US\$'000	US\$'000
		(unaudited)	(audited)
Revenue	3	5,278	5,611
Cost of sales		(4,123)	(3,925)
		<hr/>	<hr/>
Gross profit		1,155	1,686
Other income		1	12
Distribution and selling expenses		(28)	(35)
Administrative expenses		(1,269)	(796)
Other operating expenses			
– Listing expenses		–	(669)
– Others		(61)	(71)
Finance costs		(5)	(12)
Other gains and losses		(218)	(177)
		<hr/>	<hr/>
Loss before income tax	4	(425)	(62)
Income tax expense	5	(84)	(160)
		<hr/>	<hr/>
Loss for the period		(509)	(222)
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss			
Exchange difference arising from translation of overseas operations		515	282
		<hr/>	<hr/>
Total comprehensive income for the period		6	60
		<hr/> <hr/>	<hr/> <hr/>
		US cents	US cents
Loss per share	7		
– Basic		(0.032)	(0.019)
– Diluted		(0.032)	(0.019)
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	Share							Total
	Share capital	Share premium	Share option reserve	Merger reserve	Capital contribution	Translation reserve	Accumulated losses	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Three months ended 31 March 2016 (audited)								
At 1 January 2016	5,628	—	89	327	1,247	(396)	(1,424)	5,471
Loss for the period	—	—	—	—	—	—	(222)	(222)
Other comprehensive income for the period								
— Exchange difference arising from translation of overseas operations	—	—	—	—	—	282	—	282
Total comprehensive income for the period	—	—	—	—	—	282	(222)	60
Issue of shares upon exercise of PFC share options	553	89	(89)	—	—	—	—	553
Acceleration of vesting of PFC share options	—	—	2	—	—	—	—	2
Recognition of contingent obligation arising from the share repurchase agreement	(553)	—	—	—	—	—	—	(553)
Termination of PFC option plan	—	—	(2)	—	—	—	2	—
At 31 March 2016	5,628	89	—	327	1,247	(114)	(1,644)	5,533
Three months ended 31 March 2017 (unaudited)								
At 1 January 2017	2,062	20,536	—	905	1,247	(1,026)	(1,504)	22,220
Loss for the period	—	—	—	—	—	—	(509)	(509)
Other comprehensive income for the period								
— Exchange difference arising from translation of overseas operations	—	—	—	—	—	515	—	515
Total comprehensive income for the period	—	—	—	—	—	515	(509)	6
Share-based payment expense of options granted by the Company during the period	—	—	175	—	—	—	—	175
At 31 March 2017	2,062	20,536	175	905	1,247	(511)	(2,013)	22,401

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 2 March 2016. The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 1/F, Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in manufacturing and sales of power discrete semiconductors.

The ultimate holding company of the Company is Shell Electric Holdings Limited (“**Shell Electric**”), a company incorporated in Bermuda.

The condensed consolidated financial information are unaudited, but have been reviewed by the Audit Committee of the Company. The unaudited condensed consolidated financial information were approved for issue on 9 May 2017.

2. BASIS OF PRESENTATION

Except for the adoption of new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certificate Public Accountants (“**HKICPA**”), which are effective for the Group’s financial year beginning 1 January 2017, the accounting policies applied in preparing these unaudited condensed consolidated financial statements for the three months ended 31 March 2017 are consistent with those of the annual financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective.

The unaudited condensed consolidated financial statements are prepared under the historical cost basis.

The unaudited condensed consolidated financial statements are presented in United States dollars (“**US\$**”), which is the same as the functional currency of the Company.

3. REVENUE

The Group is principally engaged in manufacturing and sales of power discrete semiconductors. Revenue represented the net invoiced value of goods sold during the periods:

	Three months ended	
	31 March	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(audited)
Sales of power discrete semiconductors	5,002	5,113
Trading of raw materials	276	498
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	5,278	5,611
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4. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	Three months ended	
	31 March	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(audited)
Depreciation of property, plant and equipment	381	330
Employee benefit expenses (including directors' emoluments)		
— Salaries, wages and other benefits	997	700
— Contribution to defined contribution retirement plans	54	37
— Equity settled share-based payment expense	175	2
	<hr/>	<hr/>
	1,226	739
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5. INCOME TAX EXPENSE

The amounts of income tax in the unaudited condensed consolidated statement of comprehensive income represent:

	Three months ended	
	31 March	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(audited)
Current tax		
– Hong Kong Profits Tax	–	–
– Other regions of the People's Republic of China (the "PRC")		
– Enterprise Income Tax ("EIT")	82	–
– Taiwan	–	188
	<hr/>	<hr/>
	82	188
Deferred tax	2	(28)
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Income tax expense	84	160
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Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits derived from Hong Kong for the periods. Profits tax arising from operations in Taiwan is calculated at 17% (2016: 17%) on the estimated assessable profit for the periods.

EIT arising from other regions of the PRC is calculated at 25% (2016: 25%) on the estimated assessable income for the periods.

6. DIVIDEND

The Board does not declare the payment of any interim dividend for the three months ended 31 March 2017 (31 March 2016: Nil).

7. LOSS PER SHARE

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

	Three months ended	
	31 March	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(audited)
Loss		
Loss for the period attributable to owners of the Company	(509)	(222)
	2017	2016
Number of shares		
Weighted average number of ordinary shares in issue during the period	1,600,000,000	1,200,000,000

The weighted average number of ordinary shares for the purposes of calculating basic loss per share for the three months ended 31 March 2016 of 1,200,000,000 represents the number of shares of the Company in issue immediately after the completion of the capitalization issue, as if these shares had been issued throughout the period.

Diluted loss per share is the same as the basic loss per share as there are no dilutive potential ordinary shares in existence during the periods.

BUSINESS REVIEW

The Group is principally engaged in the design, assembly, and sales of its power discrete semiconductors. Its principal applications and core segments include (1) power supply and adapters for TV, PC, laptop, (2) chargers for mobile phone, tablet, portable electronic devices, and (3) industry and automotive applications, etc.

The Group continues to expand its market penetration in the first quarter of 2017 with volume growth mostly coming from power supply and adapters for TV, PC and laptop in the PRC. Total volume of manufactured goods shipped in the first quarter of 2017 amounted to 41.5 million pieces as compared to 36.5 million pieces in the first quarter of 2016. The Group continues to not only focus on major design win of tier-1 electronic manufacturers in the core segment but also expands the market share on tier-2 and tier-3 electronic manufacturers.

FINANCIAL REVIEW

Revenue and Operating Results

Revenue from the Group's operations for the three months ended 31 March 2017 amounted to US\$5.3 million, representing a decrease of US\$0.3 million or 5% as compared to US\$5.6 million for the corresponding period in last year. The decrease in revenue came mainly from the drop in average sales prices of its semiconductors products and lower turnover in trading of raw materials as compared to the corresponding period in last year.

Loss attributable to the owners of the Company for the three months ended 31 March 2017 dipped from US\$0.2 million to US\$0.5 million representing an increase in loss of US\$0.3 million over the corresponding period in last year. The increase in net loss was mainly attributable to the decrease in gross profit margin and increase in administrative expenses primarily due to higher headcount and increased staff expenses including share option expenses incurred for the three months ended 31 March 2017.

USE OF PROCEEDS FROM THE PLACING

The net proceeds from the Placing (after deducting the underwriting fees and related expenses) amounted to approximately HK\$57.4 million (equivalent to approximately US\$7.4 million). The directors had evaluated the Group's business plan and considered that, as at 31 March 2017, no modification of the business plan regarding the use of proceeds as described in the prospectus of the Company dated 30 September 2016 was required. The Group had utilized approximately US\$1.1 million, from the net proceeds as at 31 March 2017. The unused net proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong.

DISCLOSURE OF INTERESTS

A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 March 2017, the Directors and chief executives of the Company and/or any of their respective associates had the following interests and short positions in the shares (the “**Shares**”), underlying Shares and debentures of the Company and/or any of its associated corporation (which has the same meaning as defined in 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 :

I Long Position in the Shares of the Company

Name of Director	Capacity/ Nature of interest	Number of Shares held/ interested in the Company	Percentage of shareholding
Mr. Yung Kwok Kee, Billy (“ Mr. Yung ”)	Interest in a controlled corporation (Notes 1 and 2)	1,152,177,939	72.01%
Mr. Hong James Man-fai (“ Mr. Hong ”)	Beneficial interest (Note 3)	12,531,657	0.8%
Mr. Chow Kai Chiu, David (“ Mr. Chow ”)	Beneficial interest	2,703,838	0.2%

Notes:

- Mr. Yung is interested in 100% of the issued share capital of Red Dynasty Investments Limited (“**Red Dynasty**”). Red Dynasty holds 80.5% interest in Shell Electric Holdings Limited (“**Shell Electric**”). Lotus Atlantic Limited (“**Lotus Atlantic**”) is wholly and beneficially owned by Foremost Pacific Limited (“**Foremost Pacific**”). Foremost Pacific is wholly and beneficially owned by Sybond Venture Limited (“**Sybond Venture**”), and Sybond Venture is wholly and beneficially owned by Shell Electric. Mr. Yung is therefore deemed to be interested in 1,129,603,327 Shares held by Lotus Atlantic which is an indirect wholly-owned subsidiary of Shell Electric for the purpose of SFO.
- 22,574,612 Shares that are charged by the PFC option shareholders (save for Mr. Chow) to Lotus Atlantic pursuant to the share charges. Details of the PFC option shareholders and share charges are set out in the section headed “History, Reorganisation and Corporate Structure” to the prospectus of the Company dated 30 September 2016.

3. *Mr. Hong is the beneficial owner of 12,531,657 Shares, in which 9,573,659 Shares are charged in favour of Lotus Atlantic pursuant to the share charge effective on the 7 October 2016 and executed by Mr. Hong.*

II **Long Position in the underlying Shares**

Name of Director	Capacity	Number of underlying Shares held	Percentage of shareholding
Mr. Hong	Beneficial interest	5,408,343 (Note 1)	0.34%
Mr. Tang Che Yin ("Mr. Tang")	Beneficial interest	2,800,000 (Note 2)	0.18%

Notes:

- These underlying Shares represent 5,408,343 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Hong on 22 March 2017 pursuant to the share option scheme of the Company adopted on 19 September 2016 under which the said options can be exercised by Mr. Hong from 1 April 2017 to 31 March 2027 (both days inclusive) at the exercise price of HK\$0.165 per Share.*
- These underlying Shares represent 2,800,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Tang on 22 March 2017 pursuant to the share option scheme of the Company adopted on 19 September 2016 under which the said options can be exercised by Mr. Tang from 1 April 2017 to 31 March 2027 (both days inclusive) at the exercise price of HK\$0.165 per Share.*

Save as disclosed above, as at 31 March 2017, none of Directors nor chief executive of the Company and/or any of their respective associates has registered an interest or short positions in the Shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

B. Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 March 2017, the interest and short positions of the person (other than the Directors or chief executive of the Company as disclosed above) or company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Capacity/ nature of interest	Number of Shares held/ interested in	Long/short position	Percentage of shareholding
Lotus Atlantic	Beneficial owner	1,152,177,939 <i>(Notes 1 and 2)</i>	Long	72.01%
Foremost Pacific	Interest in a controlled corporation	1,152,177,939 <i>(Notes 1 and 2)</i>	Long	72.01%
Sybond Venture	Interest in a controlled corporation	1,152,177,939 <i>(Notes 1 and 2)</i>	Long	72.01%
Shell Electric	Interest in a controlled corporation	1,152,177,939 <i>(Notes 1 and 2)</i>	Long	72.01%
Red Dynasty	Interest in a controlled corporation	1,152,177,939 <i>(Notes 1 and 2)</i>	Long	72.01%
Ms. Vivian Hsu	Family interest	1,152,177,939 <i>(Note 3)</i>	Long	72.01%

Notes:

1. *Red Dynasty holds 80.5% interest in Shell Electric. Lotus Atlantic is wholly and beneficially owned by Foremost Pacific. Foremost Pacific is wholly and beneficially owned by Sybond Venture, and Sybond Venture is wholly and beneficially owned by Shell Electric. Each of these companies is therefore deemed to be interested in 1,129,603,327 Shares owned and held by Lotus Atlantic which is an indirect wholly-owned subsidiary of Shell Electric for the purpose of the SFO.*
2. *22,574,612 Shares are charged by the PFC option shareholders (save for Mr. Chow) to Lotus Atlantic pursuant to the share charges.*
3. *These Shares represent the interest held by Lotus Atlantic which is a controlled corporation of Mr. Yung. Ms. Vivian Hsu ("**Mrs. Yung**") is the spouse of Mr. Yung. Under the SFO, Mr. Yung is deemed to be interested in all of the Shares in which Lotus Atlantic is interested and Mrs. Yung is deemed to be interested in all the Shares in which Mr. Yung is interested.*

Save as disclosed above, as at 31 March 2017 and so far as known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme (the “**Share Option Scheme**”) which was approved and adopted pursuant to the written resolutions on 19 September 2016. The terms of the Share Option Scheme are in accordance with Chapter 23 of the GEM Listing Rules. A summary of the principal terms of the Share Option Scheme are disclosed in the annual report of the Company for the year ended 31 December 2016.

As at 31 March 2017, the share options to subscribe for an aggregate of 41,794,191 shares of the Company granted pursuant to the Share Option Scheme were outstanding. The details of the Share Option Scheme as at 31 March 2017 are set out as follows:

Category of Participants	Exercise price per share (HK\$)	Date of grant	Exercisable period	Number of share options					Outstanding as at 31 March 2017
				As at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	
Directors									
Mr. Hong	0.165	22 March 2017	1 April 2017 – 31 March 2027	–	5,408,343	–	–	–	5,408,343
Mr. Tang	0.165	22 March 2017	1 April 2017 – 31 March 2027	–	2,800,000	–	–	–	2,800,000
Senior management, employees and consultant									
In aggregate	0.165	22 March 2017	1 April 2017 – 31 March 2027	–	33,585,848	–	–	–	33,585,848
Total				–	41,794,191	–	–	–	41,794,191

Notes:

1. The closing price of the Shares immediately before the date of grant of share options was HK\$0.172.
2. No share options was exercised, lapsed and cancelled during the period.
3. The share options are valid and effective for a period of 10 years from 1 April 2017.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as the Share Option Scheme, at no time during the three months ended 31 March 2017 were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were there any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

COMPETING INTERESTS

During the three months ended 31 March 2017, so far as the Directors are aware, none of the Directors, the controlling shareholders and substantial shareholders, neither themselves nor their respective associates (as defined in the Listing Rules) had held any position or had interest in any businesses or companies that were or might be materially competing with the business of the Group, or gave rise to any concern regarding conflict of interests.

INTEREST OF COMPLIANCE ADVISOR

As at 31 March 2017, as notified by the Company's compliance advisor, Messis Capital Limited (the "**Compliance Advisor**"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated on 29 September 2016, neither the Compliance Advisor nor any of its directors, employees or close associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

PURCHASE, SALES OF REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the three months ended 31 March 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continuing growth of the Group and for safeguarding and maximising shareholders' interests.

During the three months ended 31 March 2017, the Company had complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules except the following deviation.

Under code provision C.2.5 of the CG Code, an issuer should have an internal audit function. The Company does not have an internal audit function from the date of Listing and up to 31 March 2017. Taking into account the size and complexity of the operations of the Group, the Company considers that the existing organisation structure and the close supervision of the management could provide sufficient risk management and internal control for the Group. However, the Board has reviewed the need to set up an internal audit function and an internal auditor has been appointed on 3 April 2017.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of provisions of conduct regarding securities transactions by the Directors ("**the Code of Conduct**") on terms no less exacting than the required standards of dealings concerning securities transactions by the Directors as set out in the Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct throughout the three months ended 31 March 2017.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) consists of two independent non-executive Directors and one non-executive Director of the Company, namely Mr. Leung Man Chiu, Lawrence (chairman of the Audit Committee), Mr. Fan Yan Hok, Philip and Mr. Yung Kwok Kee, Billy, with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee has reviewed the unaudited condensed consolidated financial statements and the first quarterly report of the Group for the three months ended 31 March 2017.

By order of the Board

PFC DEVICE INC.

CHOW Kai Chiu, David

Executive Director

Hong Kong, 9 May 2017

As at the date of this report, the Board comprises two executive directors, namely, Mr. HONG James Man-fai and Mr. CHOW Kai Chiu, David; two non-executive directors, namely, Mr. YUNG Kwok Kee, Billy and Mr. TANG Che Yin; and three independent non-executive directors, namely, Mr. LAM, Peter, Mr. LEUNG Man Chiu, Lawrence and Mr. FAN Yan Hok, Philip.