



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

Stock Code: 8113

2017

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 or any 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 HK\$475,695,000 for the three months ended 31 March 2017 (Three months ended 31 March 2016: HK\$335,281,000).

Profit attributable to owners of the Company for the three months ended 31 March 2017 amounted to HK\$7,034,000 (Three months ended 31 March 2016: HK\$4,214,000).

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2017.

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 2017 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 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue	3	475,695	335,281
Cost of sales		(457,162)	(322,710)
Gross profit		18,533	12,571
Other income		101	99
Distribution costs		(1,606)	(864)
Administrative expenses		(7,156)	(6,236)
Interest on bank borrowings wholly repayable within five years		(1,471)	(225)
Profit before taxation		8,401	5,345
Income tax expense	4	(1,367)	(1,131)
Profit for the period	6	7,034	4,214
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign subsidiaries operations		(1,595)	(632)
Total comprehensive income for the period		5,439	3,582
Earnings per share (HK cents)	7		
— Basic		1.17	0.71
— Diluted		1.12	0.70

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Shareholder's			Retained profits HK\$'000	Total HK\$'000
					Dividend reserve HK\$'000	contribution reserve HK\$'000	Share option reserve HK\$'000		
At 1 January 2017	6,000	36,440	25,000	(1,899)	12,000	448	1,643	31,542	111,174
Profit for the period	—	—	—	—	—	—	—	7,034	7,034
Exchange differences arising on translation of foreign subsidiaries operations	—	—	—	(1,595)	—	—	—	—	(1,595)
Total comprehensive (expense) income for the period	—	—	—	(1,595)	—	—	—	7,034	5,439
Recognition of equity-settled share-based payment	—	—	—	—	—	—	165	—	165
Share option exercised	95	3,234	—	—	—	—	(375)	—	2,954
At 31 March 2017	6,095	39,674	25,000	(3,494)	12,000	448	1,433	38,576	119,732
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 (expense) income for the period	—	—	—	(632)	—	—	—	4,214	3,582
Special dividend paid (note 5)	—	—	—	—	(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

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**”) 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 2017, the accounting policies applied in preparing this unaudited condensed consolidated financial information for the three months ended 31 March 2017 are consistent with those of the annual financial statements for the year ended 31 December 2016, 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 2016.

The Group has applied the following new amendments to HKFRSs issued by the HKICPA for the first time in current period.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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 components with the provision of independent design house service to external parties. The following is an analysis of the Group's revenue by the geographical locations of customers.

	Revenue by geographical market	
	For the three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The PRC	409,856	280,305
Hong Kong	61,254	53,313
Taiwan	4,470	1,651
Others	115	12
	475,695	335,281

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	
	For the three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	69,524	34,275
Customer B	60,739	44,821

4. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong profits tax	1,367	1,103
PRC Enterprise Income Tax ("EIT")	—	28

Hong Kong profits tax has been provided at the rate of 16.5% (Three months ended 31 March 2016: 16.5%) on the estimated assessable profit during the period arising in or derived from Hong Kong. Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (Three months ended 31 March 2016: 25%).

5. DIVIDEND PAID

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

	For the three months ended 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' fees	250	250
Staff costs:		
Salaries and other allowances	3,840	2,666
Retirement benefit scheme contributions	879	622
Share-based payment expenses	165	688
Total staff costs	5,134	4,226
Auditor's remuneration	262	254
Bank interest income	(55)	(18)
Net exchange gain	(46)	(81)
Cost of inventories recognised as an expense	454,563	314,416
Depreciation of property, plant and equipment	67	53
Operating lease rental in respect of offices and warehouses paid/payable to		
— third parties	303	280
— substantial shareholder and its subsidiaries	125	127

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:

	For the three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company, for the purpose of basic and diluted earnings per share	7,034	4,214
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	601,668	590,110
Effect of dilutive potential ordinary shares in respect of share options ('000)	25,110	14,620
Weighted average number of ordinary shares for diluted earnings per share ('000)	626,778	604,730

INTERIM DIVIDEND

The board does not recommend the payment of interim dividend for the three months ended 31 March 2017 (Three months ended 31 March 2016: 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 aids (“ELA”), tablets, set-top boxes, multi-media players (car infotainment system) and video image devices together with the provision of IDH services to original brand manufacturers and original design manufacturers.

During the three months ended 31 March 2017, the Group maintained its competitiveness and recorded a satisfactory revenue and profit level against the slowdown of China’s GDP growth.

As our ELA customers increased demand of our medium size Innolux panel solutions, our sales of Innolux panel solutions recorded significant growth in the first quarter when comparing with the corresponding period of last year.

As smart car became popular, we supplied more car infotainment system solutions to branded car manufacturers in the first quarter and recorded significant shipment growth of our IC solutions in the first quarter.

As a result, revenue of the Company for the first quarter of 2017 increased 42% as compared with the corresponding period of last year.

OUTLOOK

Looking forward, we are optimistic to maintain the growth momentum of the Group in 2017.

The Group will continue to promote and develop new product designs in order to lay the foundation of increasing sales revenue in 2017.

In the second quarter, our major ELA customers will enter its peak production season and adopt our new 9.7-inch Innolux liquid crystal display module solution in its products. We also expect large demand of our panel and module solutions in the second half of 2017. Moreover, the Group will bundle Rockchip IC solutions with Innolux panel solutions in developing and promoting smart home products.

Largely driven by the fast expansion of the hunting camera segment and continued growth in sport camera segment, we will benefit from receiving sizable orders from our video image device customers in using our IC solutions.

The Company is positive in our business development in 2017. We will continue to pursue a healthy and sustainable business growth and are confident to generate more returns to our shareholders.

FINANCIAL REVIEW

Revenue

For the three months ended 31 March 2017, the Group achieved sales revenue of HK\$475,695,000 increased approximately 42% from HK\$335,281,000 recorded in the corresponding period of 2016. The increase was primarily attributable to our increased sales to ELA, car infotainment system and set-top box customers.

Gross Profit

Gross profit for the three months ended 31 March 2017 was HK\$18,533,000 increased approximately 47% from HK\$12,571,000 recorded in the corresponding period of 2016. Gross profit margin was 3.90%, increased from 3.75% recorded in the corresponding period of 2016.

Distribution Costs and Administrative Expenses

The Group's operating costs for the reporting period were HK\$8,762,000 (2016: HK\$7,100,000), representing an increase of approximately 23% compared to the corresponding period in 2016. This was mainly attributable to the increase in operating expenses such as transportation and logistic charges and staff costs 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 2017 was HK\$7,034,000 increased by approximately 67% as compared with HK\$4,214,000 recorded in the corresponding period of 2016, which was mainly attributable to the increase in revenue during the period under review.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2017, 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 JP (Note 1)	Beneficial owner and interest in controlled corporation	232,345,861	38.12
Chang Wei Hua (Note 2)	Beneficial owner and interest in controlled corporation	76,547,000	12.56
Wei Wei (Note 3)	Beneficial owner and interest in controlled corporation	76,547,000	12.56
Fung Cheuk Nang, Clement	Beneficial owner	300,000	0.05
Tsoi Chi Ho, Peter	Beneficial owner	300,000	0.05
Tong Sze Chung	Beneficial owner	144	0

Notes:

1. Mr. Yim Yuk Lun, Stanley JP beneficially owns 26,692,861 shares and is the controlling shareholder of S.A.S. Dragon; he is therefore under the SFO deemed to be interested in 205,653,000 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. Mr. Chang Wei Hua beneficially owns 300,000 shares and 76,247,000 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. Mr. Wei Wei beneficially owns 300,000 shares and 76,247,000 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

(a) 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 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.

Grantees	Vesting proportion	Vesting date	Exercisable period	Exercise price per share	Options granted as at 11.10.2015	Options lapsed during 2016	Options lapsed during the period	Options exercised during the period	Options as at 31.3.2017
Directors	50%	6.1.2017	7.1.2017 to 6.1.2019	HK\$0.31	2,100,000	(300,000)	—	(1,200,000)	600,000
Directors	50%	6.1.2018	7.1.2018 to 6.1.2019	HK\$0.31	2,100,000	(300,000)	—	—	1,800,000
Others									
Employees and connected persons	50%	6.1.2017	7.1.2017 to 6.1.2019	HK\$0.31	27,900,000	(750,000)	(525,000)	(8,330,000)	18,295,000
Employees and connected persons	50%	6.1.2018	7.1.2018 to 6.1.2019	HK\$0.31	27,900,000	(750,000)	(525,000)	—	26,625,000
Total					60,000,000	(2,100,000)	(1,050,000)	(9,530,000)	47,320,000

(b) 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.

At as the date of this Report, save as otherwise approved by shareholders of the Company, the maximum number of shares available for issue under options which may be granted is 60,000,000, representing approximately 10% of the number of issued shares of the Company.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes as disclosed above, at no time during the three months ended 31 March 2017 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 2017, 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	205,653,000	33.74
S.A.S. Investment	Beneficial owner	205,653,000	33.74

Note: S.A.S. Dragon deemed to be interested in the 205,653,000 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 2017.

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 2017.

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

On 7 January 2016, the Company has offered 150,000,000 shares for subscription by way of placing and raised net proceeds of approximately HK\$30 million. As at 31 March 2017, the net proceeds from the placing had been applied as follows.

	Actual use of proceeds as at 31 March 2017 (HK\$'000)
Upgrade our ERP system	178
Expand our ELA business by engaging in:	
— R&D staff expenses	752
— Equipment purchases	301
Total	1,231

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

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") throughout the three months ended 31 March 2017, 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, internal control, risk management and the unaudited consolidated financial statements for the three months ended 31 March 2017.

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 2017.

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.

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

Hong Kong, 9 May 2017

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