

2018

FIRST QUARTERLY REPORT



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

Stock Code: 8113



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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 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 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\$495,562,000 for the three months ended 31 March 2018 (Three months ended 31 March 2017: HK\$475,695,000).

Profit attributable to owners of the Company for the three months ended 31 March 2018 amounted to HK\$7,263,000 (Three months ended 31 March 2017: HK\$7,034,000).

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2018 (Three months ended 31 March 2017: Nil).

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 2018 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 2018

	Notes	For the three months ended 31 March	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	3	495,562	475,695
Cost of sales		(475,053)	(457,162)
Gross profit		20,509	18,533
Other income		34	101
Distribution costs		(3,208)	(3,017)
Administrative expenses		(7,441)	(5,745)
Interest on bank borrowings wholly repayable within five years		(1,222)	(1,471)
Profit before taxation		8,672	8,401
Income tax expense	4	(1,409)	(1,367)
Profit for the period	6	7,263	7,034
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations			
— subsidiaries		157	(1,595)
Total comprehensive income for the period		7,420	5,439
Earnings per share (HK cents)	7		
— Basic		1.15	1.17
— Diluted		1.14	1.12

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2018

	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 2018	6,267	45,473	25,000	3,178	12,533	448	1,143	49,777	143,819
Profit for the period	—	—	—	—	—	—	—	7,263	7,263
Exchange differences arising on translation of foreign operations									
— subsidiaries	—	—	—	157	—	—	—	—	157
Total comprehensive income for the period	—	—	—	157	—	—	—	7,263	7,420
Recognition of equity-settled share-based payment	—	—	—	—	—	—	11	—	11
Share option exercised	186	6,305	—	—	—	—	(734)	—	5,757
At 31 March 2018	6,453	51,778	25,000	3,335	12,533	448	420	57,040	157,007
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 operations									
— subsidiaries	—	—	—	(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

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 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 GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) by way of placing 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 2018, the accounting policies applied in preparing this unaudited condensed consolidated financial information for the three months ended 31 March 2018 are consistent with those of the annual financial statements for the year ended 31 December 2017, 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 2017.

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

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 electronic 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	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The PRC	350,861	409,856
Hong Kong	135,923	61,254
Taiwan	7,215	4,470
Others	1,563	115
	495,562	475,695

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	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	N/A*	69,524
Customer B	N/A*	60,739

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

4. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current tax:		
Hong Kong profits tax	1,409	1,367
PRC Enterprise Income Tax ("EIT")	—	—
	1,409	1,367

Hong Kong profits tax has been provided at the rate of 16.5% (Three months ended 31 March 2017: 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%, except that Shenzhen Hi-Level Technology Development Limited was recognized as a High and New Technology Enterprise by the PRC tax authority such that it was entitled to a concessionary tax rate of 15% (Three months ended 31 March 2017: 25%).

5. DIVIDEND

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2018 (Three months ended 31 March 2017: Nil).

6. PROFIT FOR THE PERIOD

	For the three months ended 31 March	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' fees	300	250
Staff costs:		
Salaries and other allowances	2,518	2,429
Retirement benefit scheme contributions	478	434
Share-based payment expenses	11	165
Total staff costs	3,007	3,028
Auditor's remuneration	285	262
Bank interest income	(34)	(55)
Net exchange gain	(374)	(46)
Cost of inventories recognised as an expense	461,460	454,563
Depreciation of property, plant and equipment	298	67
Operating lease rental in respect of offices and warehouses paid/payable to		
— third parties	936	303
— substantial shareholder and its subsidiaries	128	125

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	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit for the period attributable to owners of the Company, for the purpose of basic and diluted earnings per share	7,263	7,034
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	630,580	601,668
Effect of dilutive potential ordinary shares in respect of share options ('000)	7,780	25,110
Weighted average number of ordinary shares for diluted earnings per share ('000)	638,360	626,778

INTERIM DIVIDEND

The board does not recommend the payment of interim dividend for the three months ended 31 March 2018 (Three months ended 31 March 2017: 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 mobile internet devices (“**MID**”), electronic learning aids (“**ELA**”), multi-media players (car infotainment system), smartphone panel modules, set-top boxes (“**STB**”), and video image devices together with the provision of IDH services to original brand manufacturers and original design manufacturers.

First quarter is typically off-season of consumer electronic products and most of our customers cleared excess stock in the consumer electronic market in the first quarter of 2018. Revenue and profit of the Company for the first quarter of 2018 recorded a slightly increase as compared with the corresponding period of last year.

MID segment delivered the largest revenue of the Group during the period under review. Even market shipment of tablet showed sign of saturation, the Company successfully captured new market demand of our smart speaker solutions for mainland and international branded smart speaker manufacturers.

Our revenue of Innolux panel and panel module solutions is still keeping growing in the first quarter of 2018 year on year after our ELA customers started mass production in thinner ELA products using our in-cell processing technology solution and increased demand from smartphone panel module factories.

OUTLOOK

Looking forward, we are optimistic to maintain the growth momentum of the Group in 2018.

Most of our customers have already cleared excess stock and new products will also be gradually launching in second quarter of 2018. In particular, the Group predicts an increase in demand of STB business for South America and we will be benefited from the large demand of our STB solutions.

The Company is positive in our business development in 2018. The Company has submitted a formal application to the Stock Exchange on 25 April 2018 for the transfer of listing of shares from GEM to the Main Board of the Stock Exchange pursuant to Chapter 9A of the Listing Rules (the “**Proposed Transfer**”). For details, please refer to the announcement of the Company dated 25 April 2018. The Company does not guarantee that approval and permission will be obtained from the Stock Exchange for the Proposed Transfer. 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 2018, the Group achieved sales revenue of HK\$495,562,000 increased approximately 4.2% from HK\$475,695,000 recorded in the corresponding period of 2017. The increase was primarily attributable to our increased sales of our Innolux panel and panel module solutions.

Gross Profit

Gross profit for the three months ended 31 March 2018 was HK\$20,509,000 increased approximately 10.7% from HK\$18,533,000 recorded in the corresponding period of 2017. Gross profit margin was 4.1%, increased from 3.9% recorded in the corresponding period of 2017.

Distribution Costs and Administrative Expenses

The Group’s operating costs for the reporting period were HK\$10,649,000 (2017: HK\$8,762,000), representing an increase of approximately 21.5% compared to the corresponding period in 2017. This was mainly attributable to the increase of professional fee incurred related to the Proposed Transfer and increase of operating expenses such as rental expenses and logistic 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 2018 was HK\$7,263,000 increased by approximately 3.3% as compared with HK\$7,034,000 recorded in the corresponding period of 2017.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2018, 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> (Note 1)	Beneficial owner and interest in controlled corporation	238,905,861	37.03
Chang Wei Hua (Note 2)	Interest in controlled corporation	76,847,000	11.91
Wei Wei (Note 3)	Interest in controlled corporation	76,847,000	11.91
Wong Wai Tai	Beneficial owner	2,000,000	0.31
Tong Sze Chung	Beneficial owner	300,144	0.05
Fung Cheuk Nang, Clement	Beneficial owner	300,000	0.05
Tsoi Chi Ho, Peter	Beneficial owner	300,000	0.05

Notes:

1. Mr. Yim Yuk Lun, Stanley JP beneficially owns 32,272,861 shares and is the controlling shareholder of S.A.S. Dragon Holdings Limited ("**S.A.S. Dragon**"); he is therefore under the SFO deemed to be interested in 206,633,000 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 600,000 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 600,000 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 are 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 of the Company dated 31 December 2015), 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	Options lapsed	Options exercised	Options as at	Options exercised during the period	Options as at
					11.10.2015	during 2017	during 2017	31.12.2017	during the period	31.3.2018
Directors	50%	6.1.2017	7.1.2017 to 6.1.2019	HK\$0.31	2,100,000	—	(1,500,000)	300,000	—	300,000
Directors	50%	6.1.2018	7.1.2018 to 6.1.2019	HK\$0.31	2,100,000	—	—	1,800,000	(600,000)	1,200,000
Others										
Employees and connected persons	50%	6.1.2017	7.1.2017 to 6.1.2019	HK\$0.31	27,900,000	(705,000)	(25,160,000)	1,285,000	—	1,285,000
Employees and connected persons	50%	6.1.2018	7.1.2018 to 6.1.2019	HK\$0.31	27,900,000	(1,075,000)	—	26,075,000	(17,970,000)	8,105,000
Total					60,000,000	(1,780,000)	(26,660,000)	29,460,000	(18,570,000)	10,890,000



(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 option 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 9.3% 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 2018 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 2018, 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	206,633,000	32.02
S.A.S. Investment	Beneficial owner	206,633,000	32.02

Note: S.A.S. Dragon deemed to be interested in the 206,633,000 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 2018.

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 2018.

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 2018, the net proceeds from the placing had been applied as follows.

Uses	Original allocation (HK\$ million)	Revised allocation (HK\$ million)	Actual use of proceeds as at 31 March 2018 (HK\$ million)
Upgrading the Group's ERP system	4.6	4.6	0.4
Expanding the Group's ELA business by engaging in:			
— Research and development staff expenses	2.5	2.5	1.6
— Equipment purchases	8.7	8.7	0.3
	11.2	11.2	1.9
Expanding the Group's product range by engaging in:			
— Car infotainment	2.8	2.8	2.8
— Drones Wi-Fi transmission	2.8	2.8	2.8
— Artificial Intelligence and Internet-of-Things	—	5.6	—
— Others	5.6	—	—
	11.2	11.2	5.6
General working capital	3.0	3.0	3.0
Total	30.0	30.0	10.9

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 2018, 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 2018.

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 2018.

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 2018

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.