2018

INTERIM REPORT

Hi-Level Technology Holdings Limited

揚宇科技控股有限公司

Stock Code: 8113

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley *BBS JP* *(Chairman)*
Mr. Chang Wei Hua *(Chief Executive Officer)*
Mr. Wei Wei
Mr. Tong Sze Chung

Non-Executive Director

Mr. Wong Wai Tai

Independent Non-Executive Directors

Mr. Shea Chun Lok, Quadrant
Mr. Fung Cheuk Nang, Clement
Mr. Tsoi Chi Ho, Peter

AUDIT COMMITTEE

Mr. Shea Chun Lok Quadrant *(Chairman)*
Mr. Fung Cheuk Nang, Clement
Mr. Tsoi Chi Ho, Peter

NOMINATION COMMITTEE

Mr. Shea Chun Lok Quadrant *(Chairman)*
Mr. Fung Cheuk Nang, Clement
Mr. Tong Sze Chung

REMUNERATION COMMITTEE

Mr. Shea Chun Lok Quadrant *(Chairman)*
Mr. Fung Cheuk Nang, Clement
Mr. Tong Sze Chung

COMPANY SECRETARY

Mr. Tong Sze Chung

REGISTERED OFFICE

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PRINCIPAL OFFICE

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HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
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WEBSITE

http://www.hi-levelhk.com

STOCK CODE

The Stock Exchange of Hong Kong Limited: 8113

FINANCIAL HIGHLIGHTS

The Group recorded a revenue of HK$1,026,896,000 for the six months ended 30 June 2018 (Six months ended 30 June 2017: HK$990,713,000).

Profit attributable to owners of the Company for the six months ended 30 June 2018 amounted to HK$15,646,000 (Six months ended 30 June 2017: HK$15,190,000).

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2018 (Six months ended 30 June 2017: HK1 cent).

The board of directors (the "**Board**") of Hi-Level Technology Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2018, together with comparative figures for the previous period, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	**Three months ended 30 June**		**Six moment ended 30 June**	
		2018	2017	**2018**	2017
		HK$'000	HK$'000	**HK$'000**	HK$'000
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*3*	**531,334**	515,018	**1,026,896**	990,713
Cost of sales		**(508,331)**	(494,498)	**(983,384)**	(951,660)
Gross profit		**23,003**	20,520	**43,512**	39,053
Other income		**1,480**	110	**1,117**	211
Distribution costs		**(4,320)**	(2,034)	**(7,528)**	(3,640)
Administrative expenses		**(9,083)**	(7,402)	**(16,127)**	(14,558)
Interest on bank borrowings wholly repayable within five years		**(1,832)**	(2,180)	**(3,054)**	(3,651)
Profit before taxation		**9,248**	9,014	**17,920**	17,415
Income tax expense	*4*	**(865)**	(858)	**(2,274)**	(2,225)
Profit for the period	*6*	**8,383**	8,156	**15,646**	15,190
Other comprehensive expense:					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations – subsidiaries		**—**	—	**157**	(1,595)
Total comprehensive income for the period		**8,383**	8,156	**15,803**	13,595
Earnings per share (HK cents)	*7*				
– Basic		**1.30**	1.34	**2.44**	2.51
– Diluted		**1.29**	1.29	**2.42**	2.41

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Non-current Assets			
Property, plant and equipment		**2,102**	639
Club membership		**266**	266
		2,368	905
Current Assets			
Inventories		**337,675**	239,349
Trade and other receivables	*8*	**226,303**	167,001
Amount due from related parties		**—**	7,634
Bank balances and cash		**94,359**	92,377
		658,337	506,361
Current Liabilities			
Trade and other payables	*9*	**255,664**	197,452
Amount due to a related party		**151**	65
Taxation payable		**5,118**	4,648
Bank borrowings		**233,374**	161,282
		494,307	363,447
Net Current Assets		**164,030**	142,914
Total assets less current liabilities		**166,398**	143,819
Capital and Reserves			
Share capital	*10*	**6,485**	6,267
Reserves		**159,913**	137,552
Total Equity		**166,398**	143,819

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Dividend reserve HK$'000	Shareholder's contribution reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total 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	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**15,646**	**15,646**
Exchange differences arising on translation of foreign operations									
– subsidiaries	**—**	**—**	**—**	**157**	**—**	**—**	**—**	**—**	**157**
Total comprehensive income for the period	**—**	**—**	**—**	**157**	**—**	**—**	**—**	**15,646**	**15,803**
Share option exercised	**218**	**7,410**	**—**	**—**	**—**	**—**	**(852)**	**—**	**6,776**
At 30 June 2018	**6,485**	**52,883**	**25,000**	**3,335**	**12,533**	**448**	**291**	**65,423**	**166,398**
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	—	—	—	—	—	—	—	15,190	15,190
Exchange differences arising on translation of foreign operations									
— subsidiaries	—	—	—	(1,595)	—	—	—	—	(1,595)
Total comprehensive (expense) income for the period	—	—	—	(1,595)	—	—	—	15,190	13,595
Dividend paid	—	—	—	—	(12,000)	—	—	(209)	(12,209)
Recognition of equity-settled share-based payment	—	—	—	—	—	—	311	—	311
Share option exercised	122	4,149	—	—	—	—	(482)	—	3,789
At 30 June 2017	6,122	40,589	25,000	(3,494)	—	448	1,472	46,523	116,660

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Audited)
NET CASH (USED IN) OPERATING ACTIVITIES	**(71,741)**	(44,645)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(2,083)**	(119)
NET CASH FROM FINANCING ACTIVITIES	**75,806**	16,702
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**1,982**	(28,062)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**92,377**	118,242
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**—**	2,197
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Represented by bank balances and cash	**94,359**	92,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIC OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 *Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

2.1.1 Key changes in accounting policies of resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognizing revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group has performed an assessment on the impact of the adoption of HKFRS 15 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and other items (for example, trade receivables) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The Group has performed an assessment on the impact of the adoption of HKFRS 9 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

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 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
The PRC	**364,376**	429,586	**715,237**	839,442
Hong Kong	**157,503**	79,412	**293,426**	140,666
Taiwan	**7,377**	5,813	**14,592**	10,283
Others	**2,078**	207	**3,641**	322
	531,334	515,018	**1,026,896**	990,713

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

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Customer A	**N/A*(Note)***	N/A*(Note)*	**N/A*(Note)***	104,199

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

4. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax:				
Hong Kong Profits Tax	**865**	858	**2,305**	2,225
PRC Enterprise Income Tax ("**EIT**")	**—**	—	**(31)**	—
	865	858	**2,274**	2,225

Hong Kong profits tax has been provided at the rate of 16.5% (Six months ended 30 June 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% (Six months ended 30 June 2017: 25%).

5. DIVIDEND PAID

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Final dividend paid during the period in respect of the previous financial year: Nil (2017: HK2 cents per share)	**—**	12,209

The final dividend of HK2 cents per share amounting to HK$12,969,800 for the financial year ended 31 December 2017 was approved on 15 May 2018 and paid on 6 July 2018.

6. PROFIT FOR THE PERIOD

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit for the period has been arrived at after charging (crediting):				
Director's remuneration:	**—**	—	**300**	250
Staff costs:				
Salaries and other allowances	**4,001**	3,828	**6,519**	6,257
Retirement benefit scheme contributions	**493**	437	**971**	866
Share-based payment expenses	**—**	146	**11**	311
Total staff costs	**4,494**	4,411	**7,501**	7,434
Auditor's remuneration	**305**	261	**590**	523
Bank interest income	**(29)**	(156)	**(63)**	(211)
Net exchange (gain)loss	**(23)**	293	**(397)**	247
Government grant	**(1,037)**	—	**(1,037)**	—
Cost of inventories recognized as an expense	**509,383**	483,323	**970,843**	937,886
Depreciation of property, plant and equipment	**548**	80	**846**	147
Operating lease rental in respect of offices and warehouses paid/payable to				
— third parties	**811**	311	**1,747**	614
— substantial shareholder and its subsidiaries	**128**	127	**256**	254

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 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit for the period attributable to owners of the Company, for the purpose of basic and diluted earnings per share	**8,383**	8,156	**15,646**	15,190
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share *('000)*	**646,126**	609,760	**640,961**	604,188
Effect of diluted potential ordinary shares in respect of share options *('000)*	**6,195**	24,551	**6,129**	24,967
Weighted average number of ordinary shares of diluted earnings per share *('000)*	**652,321**	634,311	**647,090**	629,155

8. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

An aged analysis of trade and bills receivables by due dates (net of allowance for doubtful debts) is as follows:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Current	**111,502**	101,328
Within 30 days	**70,427**	31,552
More than 30 days and within 60 days	**16,107**	6,299
More than 60 days and within 90 days	**1,722**	—
More than 90 days	**337**	32
	200,095	139,211
Other receivable, deposits and prepayments	**26,208**	27,790
Total trade and other receivables	**226,303**	167,001

9. TRADE AND OTHER PAYABLES

An aged analysis of trade and other payables by due date is as follows:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Current	**149,053**	123,058
Within 30 days	**61,828**	50,195
More than 30 days and within 90 days	**25,848**	3,169
More than 90 days	**6,350**	5,157
	243,079	181,579
Other payables and accruals	**12,585**	15,873
	255,664	197,452

10. SHARE CAPITAL

	30 June 2018 Number of ordinary shares '000	Amount HK$'000 (Unaudited)
Authorised:		
Ordinary shares of HK$0.01 each	**2,000,000**	**20,000**
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At beginning of the period	**626,660**	**6,267**
Exercise of share options	**21,830**	**218**
At 30 June 2018 (unaudited)	**648,490**	**6,485**

11. RELATED PARTY DISCLOSURES

During the period, the Group entered into the following significant transactions with related parties:

		For the three months ended 30 June		For the six months ended 30 June	
		2018	2017	**2018**	2017
		HK$'000	HK$'000	**HK$'000**	HK$'000
Related parties	**Nature of transactions**	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
A substantial shareholder	Rental expense paid	**128**	127	**256**	254
Related parties	Sales of electronic products	**271**	1,252	**1,793**	3,550
	Purchase of electronic products	**—**	—	**—**	16

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2018 (Six months ended 30 June 2017: HK1 cent).

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 player (car infotainment system), smartphone panel modules, set-top boxes ("**STB**"), and video image device together with the provision of IDH services to original brand manufacturers and original design manufacturers.

During the period under review, although global tablet shipments are expected to record slightly drop in 2018, we are benefited from the surging demand of our MID solutions for smart home speakers and overall we recorded stable sales of our MID solutions for tablets and smart home speaker customers when compared with same period in last year such that MID segment remains the largest revenue segment of the Group.

For the smartphone market, even we faced with serious polarization of the market, the sales of first-line brands is increasing while the sales of second and third-line brand decreased rapidly, our new generation panel module solutions are well adopted by customers during the period under review and delivered second largest revenue segment of the Group.

Other than mature demand from our STB customers focused on the South America markets, we are further benefited from the policy of the Belt and Road Initiative and recorded robust sales of our IC solutions to STB customers.

OUTLOOK

Looking into the second half of 2018, global web giants such as Amazon, Microsoft, Google, Alibaba and Tencent are ready to release their new-generation smart speakers and smart home devices with enhanced voice-interface functions and related shipments are expected to double in 2018 from 2017 and our smart speaker team is well prepared to tap such huge business opportunities.

Under the uncertainties associated with the US-China trade war, we are still conservatively positive in our business development in 2018 and will actively seek effective measures to cushion any possible negative impacts.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, the Group achieved sales revenue of HK$1,026,896,000, increased approximately 3.7% from HK$990,713,000 recorded in the corresponding period of 2017. The increase was primarily attributable from the stable sales performance of panel and IC solutions.

Gross Profit

Gross profit for the six months ended 30 June 2018 was HK$43,512,000, increased approximately 11.4% from HK$39,053,000 recorded in the corresponding period of 2017. Gross profit margin was 4.2% 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$23,655,000 (2017: HK$18,198,000), representing an increase of approximately 30.0% compared to the corresponding period in 2017. This was mainly attributable to the increase of professional fee incurred related to the proposed transfer of listing and increase of operating expenses such as rental expenses 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 six months ended 30 June 2018 was HK$15,646,000, increased by approximately 3.0% as compared with HK$15,190,000 recorded in the corresponding period of 2017.

Liquidity and Financial Resources

As at 30 June 2018, the Group's current ratio was 133% (31 December 2017: 139%). The Group's principal sources of funds are used to finance working capital and the growth and expansion of the Group's operations. The Group's principal sources of funds are cash generated from operations and bank borrowings. As at 30 June 2018, the Group had bank balances and cash of HK$94,359,000 (31 December 2017: HK$92,377,000) and bank borrowings of HK$233,374,000 (31 December 2017: HK$161,282,000).

The Group recorded debtors turnover of 30 days for the period under review (2017: 25 days) based on the amount of the average of beginning and ending debtors divided by revenue for the respective period, multiplied by 181 days (2017: 181 days).

The Group recorded inventory turnover and average payable period of 53 days and 39 days respectively for the period under review (2017: 40 days and 40 days respectively) based on the amount of the average of beginning and ending inventory and creditors as at 30 June 2018, divided by cost of sales for the respective period and multiplied by 181 days (2017: 181 days).

GEARING RATIO

As at 30 June 2018, the Group's net gearing ratio was 83.5% (31 December 2017: 47.9%), which is calculated based on the Group's net debt (calculated as total bank borrowings minus bank balances and cash) of approximately HK$139,015,000 (31 December 2017: HK$68,905,000) and Group's total equity of approximately HK$166,398,000 (31 December 2017: HK$143,819,000).

CAPITAL STRUCTURE

Details of the movements in the Company's share capital are set out in note 10 to the condensed financial statements.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

CHARGE ON ASSETS

As at 30 June 2018, the Group's factored trade receivables with the carrying value of approximately HK$22 million (2017: HK$32 million) were pledged to a bank to secure general banking facilities granted to the Group.

FOREIGN CURRENCY RISK

The Group derives its turnover, make purchases and incurs expenses denominated mainly in Renminbi, US$ and HK$. Currently, the Group has not entered into agreements or purchases instruments to hedge the Group's exchange rate risks. The management considers that the foreign exchange risk with respect to US$ and Renminbi are not significant as HK$ is pegged to US$ and transactions denominated in US$ and Renminbi are mainly carried out by entities with the same functional currency. The exchange rate of Renminbi is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group manages foreign currency risk by closely monitoring the movement of the foreign currency rates.

CAPITAL COMMITMENTS

As at 30 June 2018, the Group did not have any significant capital commitments (31 December 2017: Nil).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the six months ended 30 June 2018, the Group did not hold any significant investment in equity interest in any other company and there were no material acquisitions and disposals of subsidiaries by the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have other plans for material investments or capital assets as at 30 June 2018.

INFORMATION ON EMPLOYEES

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including medical benefits, social insurance, provident funds, bonuses and a share option scheme. As at 30 June 2018, the employee headcount of the Group was 110 (31 December 2017: 100).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 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 *BBS JP* *(Note 1)*	Beneficial owner and interest in controlled corporation	244,235,861	37.66
Chang Wei Hua *(Note 2)*	Beneficial owner and interest in controlled corporation	76,847,000	11.85
Wei Wei *(Note 3)*	Beneficial owner and interest in controlled corporation	76,847,000	11.85
Wong Wai Tai	Beneficial owner	2,000,000	0.31
Fung Cheuk Nang, Clement	Beneficial owner	600,000	0.09
Tsoi Chi Ho, Peter	Beneficial owner	600,000	0.09
Tong Sze Chung	Beneficial owner	300,144	0.05

Notes:

1. Mr. Yim Yuk Lun, Stanley *BBS JP* beneficially owns 32,272,861 shares and is the controlling shareholder of S.A.S. Dragon Holdings Ltd. ("**S.A.S. Dragon**"); he is therefore under the SFO deemed to be interested in 211,963,000 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 of 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), 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 as at 30.6.2018	Options exercised during 2017	Options as at 31.12.2017	Options exercised during the period	Options as at 30.6.2018
Directors	50%	6.1.2017	7.1.2017 to 6.1.2019	HK$0.31	2,100,000	(300,000)	(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	(300,000)	—	1,800,000	(1,200,000)	600,000
Others										
Employees and connected persons	50%	6.1.2017	7.1.2017 to 6.1.2019	HK$0.31	27,900,000	(1,455,000)	(25,160,000)	1,285,000	(280,000)	1,005,000
Employees and connected persons	50%	6.1.2018	7.1.2018 to 6.1.2019	HK$0.31	27,900,000	(1,825,000)	—	26,075,000	(20,350,000)	5,725,000
Total					60,000,000	(3,880,000)	(26,660,000)	29,460,000	(21,830,000)	7,630,000

(b) Share option scheme of the Company

Pursuant to a written resolution of the shareholders of the Company dated 23 December 2015, the share option scheme (the "**2015 Scheme**") was passed on 23 December 2015, which became effective on the Listing Date. The 2015 Scheme was established for the purpose of providing incentives or rewards for the contribution of directors of the Company and the Eligible Persons, and will expire on 22 December 2025. Under the 2015 Scheme, the directors of the Company may at their discretion grant options to the Eligible Persons.

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 six months ended 30 June 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 30 June 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	211,963,000	32.69
S.A.S. Investment	Beneficial owner	211,963,000	32.69

Note: S.A.S. Dragon deemed to be interested in the 211,963,000 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 30 June 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 30 June 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 30 June 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 30 June 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	2.2
— Equipment purchases	8.7	8.7	0.5
	11.2	**11.2**	**2.7**
Expanding the Group's product change 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**	**11.7**

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**") through the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 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 *BBS JP*
Chairman

Hong Kong, 7 August 2018

As at the date of this report, the Board comprises four executive directors, namely Mr. Yim Yuk Lun, Stanley BBS 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.