



Hi-Level Technology Holdings Limited

揚宇科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8113

First
Quarterly
Report
2020



This First Quarterly Report is printed on environmentally friendly paper

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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 of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. 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 HIGHLIGHTS

The Group recorded a revenue of HK\$407,213,000 for the three months ended 31 March 2020 (Three months ended 31 March 2019: HK\$385,792,000).

Profit attributable to owners of the Company for the three months ended 31 March 2020 amounted to HK\$4,582,000 (Three months ended 31 March 2019: HK\$4,471,000).

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2020 (Three months ended 31 March 2019: 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 2020 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 2020

	Notes	For the three months ended 31 March	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	407,213	385,792
Cost of sales		(392,603)	(369,231)
Gross profit		14,610	16,561
Other income		272	1,161
Other gain or loss		(10)	–
Impairment losses under expected credit loss model, net of reversal		(30)	–
Distribution costs		(2,949)	(4,039)
Administrative expenses		(5,036)	(6,410)
Finance costs		(1,406)	(1,924)
Profit before taxation		5,451	5,349
Income tax expense	4	(869)	(878)
Profit for the period	6	4,582	4,471
Total comprehensive income for the period		4,582	4,471
Earnings per share (HK cents) – Basic & diluted	7	0.70	0.69

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2020

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Shareholder's contribution reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2020	6,528	54,329	25,000	(3,495)	448	-	55,107	137,917
Profit for the period	-	-	-	-	-	-	4,582	4,582
Total comprehensive income for the period	-	-	-	-	-	-	4,582	4,582
At 31 March 2020	6,528	54,329	25,000	(3,495)	448	-	59,689	142,499
At 1 January 2019	6,503	53,480	25,000	(27)	448	230	53,379	139,013
Profit for the period	-	-	-	-	-	-	4,471	4,471
Total comprehensive income for the period	-	-	-	-	-	-	4,471	4,471
Share option lapsed	-	-	-	-	-	(132)	132	-
Share option exercised	25	1,152	-	-	-	(98)	-	1,079
At 31 March 2019	6,528	54,632	25,000	(27)	448	-	57,982	144,563

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 2020, the accounting policies applied in preparing this unaudited condensed consolidated financial information for the three months ended 31 March 2020 are consistent with those of the annual financial statements for the year ended 31 December 2019, 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 2019.

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

Amendments to HKFRS 3
Amendments to HKFRS 9,
HKAS 39 and HKFRS 7

Definition of a Business
Interest Rate Benchmark Reform

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/without 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	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
The PRC	228,865	285,337
Hong Kong	164,380	93,784
Taiwan	11,171	5,393
Others	2,797	1,278
	407,213	385,792

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

	Revenue by from a customer individually contributing over 10% of the Group's revenue For the three months ended 31 March	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Customer A	93,610	N/A*

* 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	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current tax:		
Hong Kong profits tax	869	878

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Under the Law of the PRC on EIT (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the Group’s PRC subsidiaries are subject to PRC EIT at the statutory rate of 25%.

5. DIVIDEND

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2020 (Three months ended 31 March 2019: Nil).

6. PROFIT FOR THE PERIOD

	For the three months ended 31 March	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' remuneration	300	300
Staff costs:		
Salaries and other allowances	1,890	2,198
Retirement benefit scheme contributions	280	436
Total staff costs	2,170	2,634
Auditor's remuneration	347	328
Bank interest income	(241)	(127)
Net exchange loss/(gain)	10	(200)
Cost of inventories recognised as an expense	393,230	370,197
(Reversal of) allowance for inventories	(2,106)	(5,578)
Impairment loss under expected credit loss mode, net of reversal		
– trade receivables	30	–
Depreciation of property, plant and equipment	182	237
Depreciation of right-of-use assets	868	–
Government grants	(30)	(1,027)
Operating lease rental in respect of offices and warehouses paid/payable to		
– third parties	699	888
– substantial shareholder and its subsidiaries	249	142

INTERIM DIVIDEND

The board does not recommend the payment of interim dividend for the three months ended 31 March 2020 (Three months ended 31 March 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is 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.

In first quarter of 2020, because of the outbreak of COVID-19, the PRC government and corporates encouraged workers to stay home, millions of Chinese employees have been experiencing home office and have entertainment at home. We benefited from the strong demand from domestic MID and smart speaker market.

Also, under the epidemic situation, PRC government suspended school classes, demand for online teaching increased, ELA became important tools of students to replace traditional textbooks. Our ELA customers increased demand of our medium size Innolux panel solutions during the period under review.

OUTLOOK

The Company believes that the negative impact of the epidemic on the global economy will intensify in the second quarter. The Company will continue to focus on domestic ELA and smart speaker market in the PRC where the epidemic is relatively stable. We will actively put more effort on the artificial intelligence solutions that related to epidemic situation.

FINANCIAL REVIEW

Revenue

For the three months ended 31 March 2020, the Group achieved sales revenue of HK\$407,213,000 increased by 5.6% from HK\$385,792,000 recorded in the corresponding period of 2019.

Gross Profit

Gross profit for the three months ended 31 March 2020 was HK\$14,610,000 decreased by 11.8% from HK\$16,561,000 recorded in the corresponding period of 2019. Gross profit margin was 3.6%, decreased from 4.3% recorded in the corresponding period of 2019.

Distribution Costs and Administrative Expenses

The Group's operating costs for the reporting period were HK\$7,985,000 (2019: HK\$10,449,000), representing a decrease of 23.6% compared to the corresponding period in 2019.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company for the three months ended 31 March 2020 was HK\$4,582,000 increased by 2.5% as compared with HK\$4,471,000 recorded in the corresponding period of 2019.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2020, 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
Dr. Yim Yuk Lun, Stanley <i>BBS JP</i> (Note 1)	Beneficial owner and interest in controlled corporation	245,435,861	37.60
Chang Wei Hua (Note 2)	Interest in controlled corporation	76,847,000	11.77
Wei Wei (Note 3)	Interest in controlled corporation	76,847,000	11.77
Wong Wai Tai	Beneficial owner	3,300,000	0.51
Tong Sze Chung	Beneficial owner	600,144	0.09
Fung Cheuk Nang, Clement	Beneficial owner	600,000	0.09
Tsoi Chi Ho, Peter	Beneficial owner	600,000	0.09

Notes:

1. Dr. Yim Yuk Lun, Stanley *BBS JP* beneficially owns 33,472,861 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 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 OPTION

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.

As at 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 9.2% of the number of issued shares of the Company.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed above, at no time during the three months ended 31 March 2020 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 2020, 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	32.47
S.A.S. Investment	Beneficial owner	211,963,000	32.47

Note: S.A.S. Dragon is 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.

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.

The change of use of the net proceeds was approved by the Board of Directors of the Company on 15 March 2018.

The revised use of net proceeds from the Placing is set out as follows.

Uses	Original allocation	Revised allocation	Actual use of proceeds as at 31 March 2020	Balance as at 31 March 2020	Expected timeline of full utilization of the balance
	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)	
Upgrading the Group's ERP system	4.6	4.6	0.4	4.2	By end of 2021
Expanding the Group's ELA business by engaging in:					
– Research and development staff expenses	2.5	2.5	2.5	–	N/A
– Equipment purchases	8.7	8.7	0.9	7.8	By end of 2021
	11.2	11.2	3.4	7.8	
Expanding the Group's product range by engaging in:					
– Car infotainment	2.8	2.8	2.8	–	N/A
– Drones Wi-Fi Transmission	2.8	2.8	2.8	–	N/A
– Artificial Intelligence and Internet-of-Things	–	5.6	1.0	4.6	By end of 2021
– Others	5.6	–	–	–	N/A
	11.2	11.2	6.6	4.6	
General working capital	3.0	3.0	3.0	–	N/A
Total	30.0	30.0	13.4	16.6	

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 2020, 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 2020.

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 2020.

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
Dr. Yim Yuk Lun, Stanley BBS JP
Chairman

Hong Kong, 7 May 2020

As at the date of this report, the Board comprises four executive directors, namely Dr. 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.

This report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting. This report will also be posted on the Company's website at www.hi-levelhk.com.