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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, 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 announcement 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 announcement misleading.

FINANCIAL HIGHLIGHTS

The Group recorded a revenue of HK\$990,713,000 for the six months ended 30 June 2017 (Six months ended 30 June 2016: HK\$689,473,000).

Profit attributable to owners of the Company for the six months ended 30 June 2017 amounted to HK\$15,190,000 (Six months ended 30 June 2016: HK\$12,108,000).

The Board has resolved to declare an interim dividend of HK1 cent per share (Six months ended 30 June 2016: HK0.5 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 2017, together with comparative figures for the previous period, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Three months ended		Six months ended	
		30 June		30 June	
		2017	2016	2017	2016
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	515,018	354,192	990,713	689,473
Cost of sales		(494,498)	(339,164)	(951,660)	(661,874)
Gross profit		20,520	15,028	39,053	27,599
Other income		110	—	211	36
Distribution costs		(2,034)	(1,155)	(3,640)	(2,019)
Administrative expenses		(7,402)	(5,046)	(14,558)	(11,219)
Interest on bank borrowings wholly repayable within five years		(2,180)	(237)	(3,651)	(462)
Profit before taxation		9,014	8,590	17,415	13,935
Income tax expense	4	(858)	(696)	(2,225)	(1,827)
Profit for the period	6	8,156	7,894	15,190	12,108
Other comprehensive expense:					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of foreign subsidiaries operations		—	(5)	(1,595)	(637)
Total comprehensive income for the period		8,156	7,889	13,595	11,471
Earnings per share (HK cents)	7				
— Basic		1.34	1.32	2.51	2.03
— Diluted		1.29	1.28	2.41	1.98

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
	Notes		
Non-current Assets			
Property, plant and equipment		428	552
Club memberships		266	266
		<u>694</u>	<u>818</u>
Current Assets			
Inventories		313,194	233,640
Trade and other receivables	8	251,113	190,370
Amount due from a related party		—	1,410
Bank balances and cash		111,544	118,242
		<u>675,851</u>	<u>543,662</u>
Current Liabilities			
Trade and other payables	9	196,479	301,613
Amount due to a related party		72	220
Taxation payable		6,194	4,890
Bank borrowings		357,140	126,583
		<u>559,885</u>	<u>433,306</u>
Net Current Assets		<u>115,966</u>	<u>110,356</u>
Total assets less current liabilities		<u>116,660</u>	<u>111,174</u>
Capital and Reserves			
Share capital	10	6,122	6,000
Reserves		110,538	105,174
Total Equity		<u>116,660</u>	<u>111,174</u>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIC 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 six months ended 30 June 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		For the six months	
	ended 30 June		ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The PRC	429,586	288,348	839,442	568,653
Hong Kong	79,412	63,951	140,666	117,264
Taiwan	5,813	1,843	10,283	3,494
Others	207	50	322	62
	<u>515,018</u>	<u>354,192</u>	<u>990,713</u>	<u>689,473</u>

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

	Revenue from customer individually contributing over 10% of the Group's revenue			
	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Customer A	<u>N/A^(Note)</u>	<u>53,366</u>	<u>104,199</u>	<u>98,187</u>

Note: Revenue from customer A contributed less than 10% of the total revenue of the Group during the three months ended 30 June 2017.

4. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current tax:				
Hong Kong Profits Tax	858	498	2,225	1,601
PRC Enterprise Income Tax ("EIT")	<u>—</u>	<u>198</u>	<u>—</u>	<u>226</u>
	<u>858</u>	<u>696</u>	<u>2,225</u>	<u>1,827</u>

Hong Kong profits tax has been provided at the rate of 16.5% (Six months ended 30 June 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% (Six months ended 30 June 2016: 25%).

5. DIVIDEND PAID

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Final dividend paid during the period in respect of the previous financial year of HK2 cents (2016: HK1 cent)	12,209	6,000
Special dividend in respect of the year ended 31 December 2015 of HK\$1.60 per share, was declared by Hi-Level Technology Limited to its then shareholders conditionally upon listing of the shares of the Company (2016: HK\$40,000,000)	<u>—</u>	<u>40,000</u>
	<u>12,209</u>	<u>46,000</u>

6. PROFIT FOR THE PERIOD

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	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 fee:	—	—	250	250
Staff costs:				
Salaries and other allowances	4,259	3,854	8,099	6,520
Retirement benefit scheme contributions	437	531	866	1,153
Share-based payment expenses	146	373	311	1,061
Total staff costs	4,842	4,758	9,276	8,734
Auditor's remuneration	261	255	523	509
Bank interest income	(156)	(6)	(211)	(24)
Net exchange loss	293	135	247	54
Cost of inventories recognized as an expense	483,323	330,762	937,886	645,178
Reversal of allowance for trade receivables	—	(1,000)	—	(1,000)
Depreciation of property, plant and equipment	80	177	147	230
Operating lease rental in respect of Offices and warehouses paid/payable to — third parties	311	274	614	554
— substantial shareholder and its subsidiaries	127	127	254	254

7. EARNINGS PER SHARE

The calculation of the basis 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	
	2017	2016	2017	2016
	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	<u>8,156</u>	<u>7,894</u>	<u>15,190</u>	<u>12,108</u>
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	609,760	600,000	604,188	595,055
Effect of diluted potential ordinary shares in respect of share options ('000)	<u>24,551</u>	<u>15,714</u>	<u>24,967</u>	<u>15,079</u>
Weighted average number of ordinary shares or diluted earnings per share ('000)	<u>634,311</u>	<u>615,714</u>	<u>629,155</u>	<u>610,134</u>

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:

	For the six months ended 30 June	
	30 June 2017	31 December 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Current	114,322	118,883
Within 30 days	23,413	45,931
More than 30 days and within 60 days	1,947	1,214
More than 60 days and within 90 days	4,387	175
More than 90 days	858	—
	144,927	166,203
Other receivable, deposits and prepayments	106,186	24,167
Total trade and other receivables	251,113	190,370

9. TRADE AND OTHER PAYABLES

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

	30 June 2017	31 December 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Current	132,259	210,848
Within 30 days	34,285	65,652
More than 30 days and within 60 days	7,605	9,466
More than 60 days and within 90 days	—	—
More than 90 days	—	200
	174,149	286,166
Other payables and accruals	22,330	15,447
	196,479	301,613

10. SHARE CAPITAL

	30 June 2017		31 December 2016	
	Number of ordinary shares '000	Amount HK\$'000 (Unaudited)	Number of ordinary shares '000	Amount HK\$'000 (Audited)
Authorised:				
Ordinary shares of HK\$0.01 each	2,000,000	20,000	2,000,000	20,000
Issued and fully paid:				
Ordinary shares of HK\$0.01 each				
At beginning of the period/year	600,000	6,000	600,000	6,000
Shares issued under Pre-IPO share option scheme	12,230	122	N/A	N/A
At 30 June 2017 (unaudited)	612,230	6,122	600,000	6,000

11. RELATED PARTY DISCLOSURES

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

Related parties	Nature of transactions	For the three months ended 30 June		For the six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
A substantial shareholder	Rental expense paid	127	127	254	254
Related parties	Sales of electronics products	1,252	142	3,550	310
	Purchase of electronic products	—	—	16	579

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1 cent (2016: HK0.5 cent) per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 28 August 2017. The dividend warrants are expected to despatch to shareholders on or about 5 September 2017.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from 24 August 2017 to 28 August 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 pm on 23 August 2017.

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 aid (“**ELA**”), tablets, set-top box (“**STB**”), multi-media player (car infotainment system) and video image device together with the provision of IDH services to original brand manufacturers and original design manufacturers.

In the second quarter of 2017, sales of hi-resolution digital audio player devices such as bluetooth headsets, smartphone accessories and smart speakers increased rapidly, we benefited from the large demand of our digital audio decoder solutions.

However, the Group faced excess supply in consumer electronic market in second quarter of 2017. The market situation put downward pressure on component prices and most manufacturers kept inventory at high level. Although we recorded growth of revenue from our sales of Innolux panel solutions and Rockchip IC solutions to our customers, our gross profit margin for second quarter of 2017 was 4.0% decreased from 4.2% recorded in second quarter of 2016.

OUTLOOK

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

After the manufacturers cleared excess stock in consumer electronic market and our peak season in ELA market started in third quarter of 2017, our gross profit margin has become normal. Apart from promoting our mid size Innolux panel modules for ELA, tablet and car infotainment system customers, we will also promote its small size panel solutions to smart phone display module factories. The Group is positive on the prospect of display market for mobile phone in 2017.

Replacing analogue televisions to digital televisions have become a trend in South America and Middle East countries, which has prompted an increase in market demand for digital STB. We predict there will be large demand of our STB solutions for our customers which specifically focus business in South America and Middle East markets.

Also, the Group will promote i-Catch IC solutions for the 360 degree action camera of which video image manufacturers has started mass production in third quarter. We predict further increase of demand of our IC solutions in the second half of this year.

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 six months ended 30 June 2017, the Group achieved sales revenue of HK\$990,713,000, increased approximately 43.7% from HK\$689,473,000 recorded in the corresponding period of 2016. The increase was primarily attributable from the satisfactory sales performance of panel and IC solutions.

Gross Profit

Gross profit for the six months ended 30 June 2017 was HK\$39,053,000 increased approximately 41.5% from HK\$27,599,000 recorded in the corresponding period of 2016. Gross profit margin was 3.9% decreased from 4.0% recorded in the corresponding period of 2016.

Distribution Costs and Administrative Expenses

The Group's operating costs for the reporting period were HK\$18,198,000 (2016: HK\$13,238,000), representing an increase of approximately 37.5% compared to the corresponding period in 2016. This was mainly attributable to the increase in operating expenses such as transportation and logistics charge 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 2017 was HK\$15,190,000 by approximately 25.5% as compared with HK\$12,108,000 recorded in the corresponding period of 2016, which was mainly attributable to the increase in revenue during the period under review.

Liquidity and Financial Resources

As at 30 June 2017, the Group's current ratio was 121% (31 December 2016: 125%). 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 2017, the Group had bank balances and cash of HK\$111,544,000 (31 December 2016: HK\$118,242,000) and bank borrowings of HK\$357,140,000 (31 December 2016: HK\$126,583,000).

The Group recorded debtors turnover of approximately 28 days for the period under review (2016: 30 days) based on the amount of the average of beginning and ending debtors divided by revenue for the respective period, multiplied by 181 days (2016: 182 days).

The Group recorded inventory turnover and average payable period of 52 days and 44 days respectively for the period under review (2016: approximately 34 days and 46 days respectively) based on the amount of inventory and creditors as at 30 June 2017, divided by cost of sales for the respective period and multiplied by 181 days (2016: 182 days).

GEARING RATIO

As at 30 June 2017, the Group's net gearing ratio was 211% (31 December 2016: 7.5%), which is calculated based on the Group's net debt (calculated as total bank borrowings minus bank balances and cash) of approximately HK\$245,596,000 (31 December 2016: HK\$8,341,000) and Group's total equity of approximately HK\$116,660,000 (31 December 2016: HK\$111,174,000).

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 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

CHARGE ON ASSETS

As at 30 June 2017, the Group's factored trade receivables with the carrying value of approximately HK\$21 million (2016: HK\$34 million) were pledged to a bank to secure general banking facilities granted to the Group.

FOREIGN CURRENCY RISK

The Group derives its turnover, makes purchases and incurs expenses denominated mainly in US\$, Renminbi and HK\$. Currently, the Group has not entered into agreements or purchased 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 the Group aims to achieve natural hedging by investing and borrowing in the same functional currencies.

CAPITAL COMMITMENTS

As at 30 June 2017, the Group did not have any significant capital commitments (31 December 2016: Nil).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the six months ended 30 June 2017, 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 2017.

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 2017, the employee headcount of the Group was 110 (31 December 2016: 90).

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 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 30 June 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 30 June 2017, the net proceeds from the Placing had been applied as follows:

	Actual use of proceeds for the six months ended 30 June 2017 (HK\$'000)
Upgrade our ERP system	178
Expand our ELA business by engaging in:	
— R&D staff expenses	1,024
— Equipment purchases	301
Total	1,503

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 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.

Under the code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. The chairman of the audit, remuneration and nomination was unable to attend the annual general meeting of the Company held on 19 May 2017 due to his unexpected business engagement. The Chairman of the board chaired the annual general meeting and was available to answer questions. All other members of the audit, remuneration and nomination committee attended the annual general meeting and were available to answer questions.

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 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 six months ended 30 June 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
Chairman

Hong Kong, 8 August 2017

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Yim Yuk Lun, Stanley, 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 announcement 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 announcement will also be posted on the Company’s website at www.hi-levelhk.com.