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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 2019

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.

*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 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\$812,932,000 for the six months ended 30 June 2019 (Six months ended 30 June 2018: HK\$1,026,896,000).

Profit attributable to owners of the Company for the six months ended 30 June 2019 amounted to HK\$12,692,000 (Six months ended 30 June 2018: HK\$15,646,000).

The Board has resolved to declare an interim dividend of HK1 cent per share (Six months ended 30 June 2018: Nil).

The board of directors (the “**Board**”) of Hi-Level Technology Holdings Limited (the “**Company**”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2019, 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 2019

		Three months ended 30 June		Six months ended 30 June	
		2019	2018	2019	2018
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	427,140	531,334	812,932	1,026,896
Cost of sales		(405,628)	(508,331)	(774,859)	(983,384)
Gross profit		21,512	23,003	38,073	43,512
Other income		57	1,480	1,218	1,117
Reversal of impairment loss recognized on trade receivables		90	—	90	—
Distribution costs		(4,004)	(4,320)	(8,043)	(7,528)
Administrative expenses		(4,967)	(9,083)	(11,377)	(16,127)
Financial costs		(2,938)	(1,832)	(4,862)	(3,054)
Profit before taxation		9,750	9,248	15,099	17,920
Income tax expense	4	(1,529)	(865)	(2,407)	(2,274)
Profit for the period	6	8,221	8,383	12,692	15,646
Other comprehensive income:					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of foreign operations — subsidiaries		48	—	48	157
Total comprehensive income for the period		8,269	8,383	12,740	15,803
Earnings per share (HK cents)	7				
— Basic		1.26	1.30	1.95	2.44
— Diluted		1.26	1.29	1.95	2.42

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Non-current Assets			
Property, plant and equipment		2,697	3,066
Club membership		266	266
Right-of-use assets		4,637	—
Rental deposits	8	847	847
		<u>8,447</u>	<u>4,179</u>
Current Assets			
Inventories		281,712	287,310
Trade and other receivables	8	156,852	199,353
Debt instruments at fair value through other comprehensive income	9	12,997	3,943
Tax recoverable		4,329	4,778
Bank balances and cash		103,094	115,082
		<u>558,984</u>	<u>610,466</u>
Current Liabilities			
Trade and other payables	10	210,413	157,971
Contract liabilities	11	10,367	11,581
Lease liability		4,692	—
Amount due to a related party		126	32
Taxation payable		1,392	1,392
Bank borrowings		194,136	304,656
		<u>421,126</u>	<u>475,632</u>
Net Current Assets		<u>137,858</u>	<u>134,834</u>
Total assets less current liabilities		<u>146,305</u>	<u>139,013</u>
Capital and Reserves			
Share capital	12	6,528	6,503
Reserves		139,777	132,510
Total Equity		<u><u>146,305</u></u>	<u><u>139,013</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. PRINCIPAL 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 2019, the accounting policies applied in preparing this unaudited condensed consolidated financial information for the six months ended 30 June 2019 are consistent with those of the annual financial statements for the year ended 31 December 2018, 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 2018.

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 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.

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* (“**HKAS 17**”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the People's Republic of China or properties in Hong Kong was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

3. REVENUE

Revenue represents the sales of electronic components with or 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		For the six months	
	30 June		ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The PRC	318,946	364,376	604,283	715,237
Hong Kong	100,527	157,503	194,311	293,426
Taiwan	3,462	7,377	8,855	14,592
Others	4,205	2,078	5,483	3,641
	<u>427,140</u>	<u>531,334</u>	<u>812,932</u>	<u>1,026,896</u>

There is no customer contributing 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	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
Hong Kong Profits Tax	1,529	865	2,407	2,305
PRC Enterprise Income Tax ("EIT")	—	—	—	(31)
	<u>1,529</u>	<u>865</u>	<u>2,407</u>	<u>2,274</u>

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, starting from the year assessment of 2018–2019, 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 (Six months ended 30 June 2018: 16.5%).

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%, except that Shenzhen Hi-Level Technology Development Limited was recognised as a High and New Technology Enterprise by the PRC tax authorities on 25 October 2015 such that it was entitled to a concessionary tax rate of 15% for three consecutive years beginning from 2016 to 2019 and was subject to review once every three years (Six months ended 30 June 2018: 25%).

5. DIVIDEND PAID

The final dividend of HK1 cent per share amounting to HK\$6,527,700 for the financial year ended 31 December 2018 was approved on 21 May 2019 and paid on 5 July 2019.

6. PROFIT FOR THE PERIOD

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	2019	2018
	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	300
Staff costs:				
Salaries and other allowances	3,267	4,001	5,465	6,519
Retirement benefit scheme contributions	401	493	837	971
Share-based payment expenses	—	—	—	11
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total staff costs	<u>3,668</u>	<u>4,494</u>	<u>6,302</u>	<u>7,501</u>
Auditor's remuneration	340	305	668	590
Bank interest income	(57)	(29)	(184)	(63)
Net exchange gain	(9)	(23)	(209)	(397)
Government grant	—	(1,037)	(1,027)	(1,037)
Cost of inventories recognized as an expense	394,685	509,383	764,882	970,843
Reversal of inventory allowance	(3,555)	—	(9,133)	—
Reversal of impairment loss recognized on trade receivables	(90)	—	(90)	—
Depreciation of property, plant and equipment	196	548	433	846
Depreciation of right-of-use assets	<u>1,658</u>	<u>—</u>	<u>1,658</u>	<u>—</u>

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	
	2019	2018	2019	2018
	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>8,221</u>	<u>8,383</u>	<u>12,692</u>	<u>15,646</u>
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	652,770	646,126	652,369	640,961
Effect of diluted potential ordinary shares in respect of share options ('000)	<u>—</u>	<u>6,195</u>	<u>—</u>	<u>6,129</u>
Weighted average number of ordinary shares of diluted earnings per share ('000)	<u><u>652,770</u></u>	<u><u>652,321</u></u>	<u><u>652,369</u></u>	<u><u>647,090</u></u>

8. TRADE AND OTHER RECEIVABLES/RENTAL DEPOSITS

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade receivables	124,922	161,981
Less: allowance for credit losses	(669)	(781)
	<u>124,253</u>	<u>161,200</u>
Other receivable, deposits and prepayments	33,446	39,000
	<u>33,446</u>	<u>39,000</u>
Total trade and other receivables	157,699	200,200
Less: receivables within twelve months shown under current assets	(156,852)	(199,353)
	<u>(156,852)</u>	<u>(199,353)</u>
Rental deposits shown under non-current assets	847	847
	<u>847</u>	<u>847</u>

The Group allows credit period ranging from 30 days to 90 days which are agreed with each of its trade customers.

The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on due date at the end of each reporting period:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Not past due	88,440	86,430
Overdue by:		
1–30 days	30,605	61,976
31–60 days	5,208	5,685
61–90 days	—	3,034
Over 90 days	—	4,075
	<u>124,253</u>	<u>161,200</u>
	<u>124,253</u>	<u>161,200</u>

9. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade receivables held for collecting contractual cash flows or factoring to bank	12,997	3,943

10. TRADE AND OTHER PAYABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade payables	197,234	147,536
Other payables and accruals	13,179	10,435
Total trade and other payables	210,413	157,971

The credit period on trade payables ranged from 30 days to 60 days.

The following is an ageing analysis of trade payables presented based on the due date at the end of each reporting period:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Not past due	103,841	85,850
Overdue by:		
1–30 days	55,595	30,617
31–90 days	37,612	30,876
Over 90 days	186	193
	197,234	147,536

11. CONTRACT LIABILITIES

The amounts represented advance payments from customers for goods. The management expects that the unsatisfied performance obligations will be recognized as revenue within the according to the contact period.

12. SHARE CAPITAL

	30 June 2019	
	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	650,270	6,503
Exercise of share options	2,500	25
At 30 June 2019 (unaudited)	652,770	6,528

13. 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	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
A substantial shareholder	Rental expense paid	141	128	283	256
Related parties	Sales of electronic products	12	271	30	1,793

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1 cent (2018: Nil) per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 4 October 2019. The dividend warrants are expected to dispatch to shareholders on or about 16 October 2019.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from 2 October 2019 to 4 October 2019, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30pm on 26 September 2019.

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 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.

The volatilities of the political environment, economy and the trade war and tariff dispute between China and the United States of America have led to postponement in taking delivery of orders by certain numbers of consumer electronic customers in China. Our overall revenue for the six months ended 30 June 2019 decreased approximately 20.8% when compared with corresponding period of 2018.

Good news is our STB customers increased their demand to procure our Avalink IC solutions as they focus business in South America and Middle East markets.

Also, our Realtek wifi solutions have been successfully promoted to our Over the Top (OTT) customers in the second quarter of 2019, we predict there will be large demand of our products.

Sales of hi-resolution digital audio player devices such as bluetooth headsets and smartphone earphone recorded growth in the second quarter of 2019. We benefited from the large demand of our Cirrus Logic digital audio decoders solutions.

However, our sales of smartphone panels modules decreased compared with same period last year as the demand of domestic TFT LCD screens was still weak.

OUTLOOK

The application of Artificial Intelligence (AI) is general trend of consumer electronics development. The Company will continue to promote the application and host education training courses of the AI solutions, especially in combination with Internet of Things (IoT) applications to our target customers. We will cooperate with China universities for basic research and the Company will be responsible for product development and marketing. We will launch our IC solutions in AI-smart closed circuit television camera, AI-smart locks, and AI driver fatigue detection car video recorders in the second half of the year. The Company will continue to invest in AI and expects it to become a major pillar of the future development of the Company and is expected to drive the growth of the revenue of the Company.

We predict the domestic smart speaker market will grow rapidly in soon. Certain mainland and international branded smart speaker manufacturers have qualified our Rockchip IC solutions and 6.95 inches Innolux panels solutions. They will start mass productions in the third quarter this year.

Also, global tablet PC shipments are expected to surge approximate 20% sequentially in the third quarter due to the launch of new iPads and Huawei gradually resumed normal tablet shipments. We will be benefited from our sales of Innolux panel solutions to our MID customers in the second half of 2019.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, the Group achieved sales revenue of HK\$812,932,000, decreased approximately 20.8% from HK\$1,026,896,000 recorded in the corresponding period of 2018. The decrease was primarily attributable to weakening demand in consumer electronic market due to the challenging operating conditions in the first half of 2019.

Gross Profit

Gross profit for the six months ended 30 June 2019 was HK\$38,073,000, decreased approximately 12.5% from HK\$43,512,000 recorded in the corresponding period of 2018. Gross profit margin was 4.7% increased from 4.2% recorded in the corresponding period of 2018.

Distribution Costs and Administrative Expenses

The Group's operating costs for the reporting period were HK\$19,420,000 (2018: HK\$23,655,000), representing a decrease of approximately 17.9% compared to the corresponding period in 2018.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company for the six months ended 30 June 2019 was HK\$12,692,000, decreased by approximately 18.9% as compared with HK\$15,646,000 recorded in the corresponding period of 2018.

Liquidity and Financial Resources

As at 30 June 2019, the Group's current ratio was 133% (31 December 2018: 128%). 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 2019, the Group had bank balances and cash of HK\$103,094,000 (31 December 2018: HK\$115,082,000) and bank borrowings of HK\$194,136,000 (31 December 2018: HK\$304,656,000).

The Group recorded debtors turnover of 32 days for the period under review (2018: 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 (2018: 181 days).

The Group recorded inventory turnover and average payable period of 66 days and 40 days respectively for the period under review (2018: 53 days and 33 days respectively) based on the amount of the average of beginning and ending inventory and creditors as at 30 June 2019, divided by cost of sales for the respective period and multiplied by 181 days (2018: 181 days).

GEARING RATIO

As at 30 June 2019, the Group's net gearing ratio was 62.2% (31 December 2018: 136.4%), which is calculated based on the Group's net debt (calculated as total bank borrowings minus bank balances and cash) of approximately HK\$91,042,000 (31 December 2018: HK\$189,574,000) and Group's total equity of approximately HK\$146,305,000 (31 December 2018: HK\$139,013,000).

CAPITAL STRUCTURE

Details of the movements in the Company's share capital are set out in note 12 to the condensed financial statements.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

CHARGE ON ASSETS

As at 30 June 2019, the Group's factored trade receivables with the carrying value of approximately HK\$15 million (2018: HK\$22 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 2019, the Group did not have any significant capital commitments (31 December 2018: Nil).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the six months ended 30 June 2019, 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 2019.

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 2019, the employee headcount of the Group was approximately 100 (31 December 2018: 100).

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 the net proceeds from the Placing is set out as follows:

Uses	Original allocation (HK\$ million)	Revised allocation (HK\$ million)	Actual use of proceeds as at 30 June 2019 (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	2.5
— Equipment purchases	8.7	8.7	0.5
	11.2	11.2	3
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	0.6
— Others	5.6	—	—
	11.2	11.2	6.2
General working capital	3.0	3.0	3
Total	<u>30.0</u>	<u>30.0</u>	<u>12.6</u>

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 2019, 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 2019.

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 2019.

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 2019

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.