
SKY LIGHT HOLDINGS LIMITED
天彩控股有限公司

Stock Code

3882

(Incorporated in the Cayman Islands with limited liability)

2017

INTERIM
REPORT





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FINANCIAL HIGHLIGHTS

	Six months ended 30 June		CHANGE
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	
REVENUE	306,028	559,681	-45.3%
GROSS PROFIT MARGIN (%)	21.4%	23.6%	-2.2 p.p.t.
(LOSS)/PROFIT FOR THE PERIOD	(166,353)	3,826	-4,448.0%
ADJUSTED BY:			
SHARE BASED PAYMENT EXPENSE	11,845	5,981	98.0%
(LOSS)/PROFIT FOR THE PERIOD BEFORE SHARE BASED PAYMENT EXPENSE	(154,508)	9,807	-1,675.5%
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
BASIC	HK(19.7) cents	HK0.5 cents	-4,040.0%
DILUTED	HK(19.7) cents	HK0.5 cents	-4,040.0%
	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Unaudited)	CHANGE
CASH AND BANK BALANCES (NOTE)	350,025	490,836	-28.7%
TOTAL EQUITY	857,711	1,023,313	-16.2%

Note:

Cash and bank balances include the following items as presented in the consolidated statements of financial position (1) cash and cash equivalents; (2) investment deposits classified as receivables; and (3) available-for-sale investments included in short term assets.

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Wu Yongmou
Mr. Lu Yongbin

Non-executive Directors

Professor Huang Erwin Steve
Ms. Tang Kam Sau

Independent Non-executive Directors

Mr. Wong Kee Fung Kenneth
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Committees of the Board

Audit Committee

Mr. Wong Kee Fung Kenneth (*Chairman*)
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Remuneration Committee

Mr. Wong Kee Fung Kenneth (*Chairman*)
Mr. Tang Wing Fong Terry
Mr. Chan Tsu Ming Louis

Nomination Committee

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Wong Kee Fung Kenneth
Mr. Chan Tsu Ming Louis

Authorized Representatives

Mr. Tang Wing Fong Terry
Ms. Ho Wing Tsz Wendy

Joint Company Secretaries

Mr. Lu Yongbin
Ms. Ho Wing Tsz Wendy

Registered Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111, Cayman Islands

Head Office, Headquarters and Principal Place of Business in the People's Republic of China ("China" or the "PRC")

No. 6 Building
Jinbi Industrial Zone
Huangtian Community, Bao'an District
Shenzhen
PRC

Principal Place of Business in Hong Kong

1009 Kwong Sang Hong Centre
151-153 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

Auditors

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Hong Kong Legal Adviser

Mayer Brown JSM
16th-19th Floors, Prince's Building
10 Charter Road
Central
Hong Kong

CORPORATE INFORMATION

Cayman Islands Principal Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111, Cayman Islands

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
13th Floor Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Hongkong and Shanghai Banking
Corporation Limited
Level 10 HSBC Main Building
1 Queen's Road Central
Hong Kong

Stock Code

3882

Company Website Address

www.sky-light.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Sky Light Holdings Limited (the “Company” or “our Company”) and its subsidiaries (together, the “Group” or “our Group”) is principally engaged in the sales, development and manufacturing of home surveillance cameras, 360-degree cameras, action cameras and related accessories and other digital imaging products such as car camcorders, police cameras and other imaging products for various purposes. In particular, the Group is one of the leading digital imaging device and solutions providers for the home surveillance camera industry. Leveraging its substantial experience spanning a diverse range of digital imaging products, the Group differentiates itself from other manufacturers by offering design-driven joint design manufacturing (“JDM”) and original design manufacturing (“ODM”) solutions to customers.

Since its establishment, the Group’s core operations have mainly focused on imaging products. The Group has successfully shifted from positioning as a traditional imaging products manufacturer to an action camera vendor, and further introduced home surveillance cameras starting in 2014. It has successfully launched 360-degree cameras in July 2016 and expects that virtual reality (“VR”) cameras (including 360-degree cameras) will be a major revenue source for the Group in the coming years. In 2016, the Group also invested in some VR-related companies and successfully acquired iON Worldwide Inc. together with its subsidiaries (“iON Group”) to develop its own VR brand along its value chain. In May 2017, the Group launched its ION360 brand worldwide.

After the acquisition of iON Group, the Group has strategically separated its business into two divisions: smart manufacturing and branding. In the smart manufacturing business (primarily consisting of JDM and ODM), the Group is dedicated to offering design-driven JDM and ODM solutions to home surveillance and security customers. As for the branding business, the Group sells its camera products under its ION360 brand.

For the six months ended 30 June 2017 (“2017 Interim”), the Group’s turnover significantly declined by approximately HK\$253.7 million to approximately HK\$306.0 million from approximately HK\$559.7 million for the same period in 2016, which was primarily caused by the significant reduction in the shipment volume of home surveillance cameras and action cameras to the Group’s key customers as compared to the corresponding period of 2016.

The revenue from the action cameras and accessories business during 2017 Interim was mainly derived from the sales of accessories. The decrease of revenue from action cameras was attributable to the discontinuance of the production of HERO-line action cameras by a key customer in February 2016.

Home surveillance cameras have become the Group’s major revenue source following the significant decline in revenue from action cameras and accessories, and contributed approximately 40.6% of its total revenue for 2017 Interim. Revenue of home surveillance cameras decreased significantly from approximately HK\$274.6 million for the six months ended 30 June 2016 (“2016 Interim”) to approximately HK\$124.2 million for 2017 Interim primarily due to the fact that the old models were gradually phasing out from the market, while the sales of the new models had just commenced during the 2017 Interim and it is expected such sales of new models will gradually pick up in the second half of 2017 or after.

The digital imaging business recorded a moderate increase in sales, mainly owing to the stable shipment of police cameras to a leading police equipment provider in the United States of America (the “US”).

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

The Group expects the VR market to undergo strong growth in the coming few years. The immersive, 360-degree digital experience can be widely applied across various industries, like E-commerce, videogames, live events, video entertainment, healthcare, real estate, education, engineering, etc. to enhance performance and functions across different environments. It is optimistic that the VR business will be one of the next multitrillion-dollar industries.

The Group is pioneering in the VR industry and is proactive in seeking new projects and business opportunities at an early stage of development of the VR market.

The Group has successfully commenced shipping of 360-degree cameras to a leading China VR camera brand since July 2016. It has entered into co-operation and collaboration with some of the leading companies in the VR industry to develop VR camera; and has also made investments in some companies which have synergies with its business along the VR value chain.

For the Group's own brand VR cameras, building on the foundation of successful co-operation and collaboration with key players in the VR value chain, the board (the "Board") of directors ("Directors") believes that the Group will be able to build its VR business under the ION360 brand, by leveraging its own manufacturing capacity and research and development capability together with integration of Shenzhen Kandao Technology Limited's VR technologies and Holor Media Inc.'s VR content production capability. In addition, the Group is actively in the process of developing carrier channels worldwide. It believes that the carrier business has good synergies with its own-branded 360-degree cameras through phone connections to enable live streaming function.

For the smart manufacturing business, the demands for more advanced cloud applications, lower power consumption, higher definition, stronger interaction and better storage and connectivity have contributed to the remarkable market growth. The Group continues to expand its smart manufacturing efforts by leveraging its research and development expertise and manufacturing excellence to fulfill customers' market needs. It also targets to introduce various smart imaging products to the market, such as baby monitor cameras and doorbell cameras, with advanced features such as image analytics and voice controls.

The Group expects its home surveillance cameras and VR cameras will contribute a larger share of its revenue in the next few years. Capitalising on its well-defined strategy and solid business foundation, the management has confidence in the Group's future prospects and that it will continue to create value for its shareholders ("Shareholders").

MANAGEMENT DISCUSSION AND ANALYSIS

The Group aims to maintain strong market position and expand its product portfolio. Thus, it will continue its effort to increase market share and deliver high-quality products and solutions to customers by pursuing the following strategies:

- Create and promote the ION360 brand for VR cameras via carrier channels
- Continue to develop innovative products by further investing in product planning and research and development capabilities
- Strengthen customer relationships and further expand its customer base
- Selectively pursue merger and acquisition opportunities, as well as investment opportunities, along the value chain

Financial review

Turnover

The Group's products mainly consist of the following three categories: (i) home surveillance cameras, (ii) action cameras and accessories, and (iii) digital imaging (including 360-degree cameras) products. It generates revenue predominantly from sales of these products, as well as from sales of other electronic products or services such as tooling fees associated with products that it manufactures for customers. It expects the contribution from home surveillance cameras and new imaging products (especially for 360-degree cameras) will increase in the next few years. The following tables set out the breakdown of the revenue from sales of major products by product type for the periods indicated:

	2017		Six months ended 30 June 2016		Revenue change
	HK\$'000 (Unaudited)	% of total revenue	HK\$'000 (Unaudited)	% of total revenue	
Major products					
Home surveillance cameras	124,232	40.6%	274,627	49.1%	-54.8%
Digital imaging	116,967	38.2%	111,466	19.9%	4.9%
Action camera and accessories	21,856	7.1%	105,090	18.8%	-79.2%
Others	42,973	14.1%	68,498	12.2%	-37.3%
Total	306,028	100.0%	559,681	100.0%	-45.3%

For 2017 Interim, the Group recorded a turnover of approximately HK\$306.0 million (2016 Interim: approximately HK\$559.7 million), representing a significant decrease of approximately 45.3% as compared to 2016 Interim. This decrease was mainly attributable to the significant reduction in the shipment units of home surveillance cameras and action cameras.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group sells its products mainly to customers in the US and expects the US market will continue to account for majority of its revenue in the foreseeable future. The significant decrease in the sales in the US was due to the decrease in the sales to the Group's key customers, which are located in the US. The following table sets out the breakdown of revenue by location of customers for the periods indicated:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
United States of America	233,016	489,066
Mainland China	26,827	43,654
European Union	32,470	20,097
Other overseas countries	13,715	6,864
	306,028	559,681

Cost of sales

Cost of sales represents costs and expenses directly attributable to the manufacture of the Group's products which comprise (i) raw materials, components and parts, including, among others, key components such as digital signal processors, lenses and sensors, (ii) direct labour, and (iii) production overhead, including mainly depreciation of production equipment and indirect labour.

For 2017 Interim, cost of sales of the Group amounted to approximately HK\$240.5 million (2016 Interim: approximately HK\$427.4 million), representing a decrease of approximately 43.7% as compared to 2016 Interim, and amounted to approximately 78.6% (2016 Interim: approximately 76.4%) of its turnover during the period. This decrease was mainly attributable to a substantial decrease in consumption of the raw materials, components and parts as a result of significant reduction in the shipment units of home surveillance cameras and action cameras and strict cost control applied by the Group during the period.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately HK\$65.6 million for 2017 Interim (2016 Interim: approximately HK\$132.3 million), representing a decrease of approximately 50.4% as compared to 2016 Interim. The gross profit margin decreased slightly from approximately 23.6% for 2016 Interim to approximately 21.4% for 2017 Interim. The decrease was mainly due to the lower utilisation of its production capacity.

Other income and gains

Other income and gains include mainly (i) bank interest income; (ii) government grants, which mainly consist of rewards and subsidies for research activities granted by the local government with no unfulfilled conditions or contingencies; and (iii) exchange gains arising mainly from fluctuation of Renminbi ("RMB") against US dollar ("US\$") between the invoice and settlement dates of its sales and purchases, and from translation of its US\$-denominated trade payables and receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

For 2017 Interim, other income and gains of the Group increased significantly by approximately 56.2% to approximately HK\$12.7 million as compared to 2016 Interim, which was primarily attributable to (i) an increase of approximately HK\$8.4 million in government grants received, which was related to the Group's research and development activities, which was partially offset by (ii) a decrease of approximately HK\$2.1 million in exchange gains due to appreciation of RMB against US\$ during the period.

Selling and distribution expenses

Selling and distribution expenses include mainly (i) marketing expenses related to the ION360 brand; (ii) salaries and benefits of its sales and marketing staff; (iii) transportation costs for delivery of products; (iv) exhibition and advertising costs; and (v) entertainment expenses relating to its sales and marketing activities.

For 2017 Interim, selling and distribution expenses soared to approximately HK\$93.8 million from approximately HK\$16.9 million for 2016 Interim. The increase in expenses in 2017 Interim was mainly attributable to the launch of the ION360 brand in May 2017.

Administrative expenses

Administrative expenses include mainly (i) salaries and benefits of the Group's management, administrative and finance staff; (ii) rental and office expenses; (iii) professional fees; (iv) other taxes and levies payable to government authorities; and (v) entertainment expenses.

For 2017 Interim, administrative expenses increased by approximately 19.9% to approximately HK\$62.6 million (2016 Interim: approximately HK\$52.2 million). The increase was primarily due to the increase in amortization of share based payment expenses during the period.

Research and development costs

Research and development costs include (i) salaries and benefits of the Group's research and development and product planning staff; (ii) raw materials, components and parts used for research and development and product planning; and (iii) other miscellaneous costs and expenses such as rental fees, design service fees, depreciation and certification fees.

For 2017 Interim, the Group recorded research and development costs of approximately HK\$72.5 million, which increased by approximately 22.4% from approximately HK\$59.3 million for 2016 Interim. This increase was mainly attributable to the development of new 360-degree cameras under the ION360 brand.

Other expenses

Other expenses include principally (i) exchange losses arising mainly from fluctuations in exchange rates between the invoice and settlement dates of its sales and purchases and from translation of its US\$-denominated trade payables and receivables; and (ii) impairment losses of receivables.

For 2017 Interim, other expenses increased significantly to approximately HK\$12.3 million from approximately HK\$3.5 million for 2016 Interim. This increase was mainly attributable to (i) an increase of approximately HK\$5.0 million in exchange losses primarily as a result of the impact of the appreciation of RMB between the invoice and settlement dates of its sales and purchases; and (ii) an impairment loss of approximately HK\$5.4 million in relation to a cooperation partner's default in repayment of deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

For 2017 Interim, the finance costs of the Group were approximately HK\$0.8 million (2016 Interim: approximately HK\$0.9 million), representing a slight decrease of approximately 15.5% as compared to 2016 Interim. This decrease was attributable to a decrease in average borrowing of US\$ amounts from certain banks in Hong Kong for settlement of decreased trade payments.

Income tax expense

For 2017 Interim, the income tax expense of the Group were approximately HK\$2.7 million (2016 Interim: approximately HK\$3.9 million), representing a decrease of approximately HK\$1.2 million as compared to 2016 Interim, which was attributable to the decrease of taxable profits in the Group's subsidiaries.

Effective income tax rate was negative for 2017 Interim, which was caused by the significant loss recorded by the Group.

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK\$166.4 million for 2017 Interim with a net loss margin of approximately 54.4%.

Liquidity and capital resources

The Group's principal cash requirements are to pay for working capital needs, capital expenditures for the expansion and upgrade of production facilities, merger and acquisitions along its value chain, and investments in start-up companies with synergy effects. The Group meets these cash requirements by relying on cash flows generated from operating activities and proceeds from issue of shares as its principal sources of funding. The following table sets out its selected consolidated cash flow for the periods indicated:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash flows (used in)/from operating activities	(23,933)	167,152
Net cash flows used in investing activities	(33,364)	(40,041)
Net cash flows used in financing activities	(93,375)	(232,089)
Net decrease in cash and cash equivalents	(150,672)	(104,978)
Cash and cash equivalents at beginning of period	480,436	629,990
Effect of foreign exchange rate, net	9,655	(5,396)
Cash and cash equivalents at end of period	339,419	519,616

MANAGEMENT DISCUSSION AND ANALYSIS

Net cash used in operating activities for 2017 Interim was approximately HK\$23.9 million, which primarily reflected (i) the adjusted loss before tax of approximately HK\$119.8 million; (ii) the collection of trade receivables of approximately HK\$170.8 million; (iii) the increase in inventory balances of approximately HK\$37.3 million; (iv) the decrease in prepayments, deposits and other receivables of approximately HK\$33.8 million; and (v) the decrease in trade payables of approximately HK\$68.7 million.

Net cash used in investing activities for 2017 Interim was approximately HK\$33.4 million. This consisted mainly of (i) payment of approximately HK\$5.7 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; and (ii) investment of approximately HK\$30.4 million in unlisted start-up companies.

Net cash used in financing activities for 2017 Interim was approximately HK\$93.4 million, which was caused by (i) net repayment of bank borrowings of approximately HK\$69.0 million as the Group utilised less interest-bearing bank borrowings to settle trade payables due to the shrink of purchase scale; and (ii) payment of approximately HK\$27.3 million to settle the 2016 final dividends.

The Group's cash and cash equivalents were denominated in US\$, HK\$ and RMB as at 30 June 2017.

Borrowing and the pledge of assets

The aggregate amount of the Group's banking facilities as at 31 December 2016 and 30 June 2017 was approximately HK\$290.8 million and approximately HK\$300.8 million, respectively. As at the respective dates, total bank loans in the amounts of approximately HK\$101.0 million and approximately HK\$32.0 million were outstanding, respectively, which are repayable within one year. The Group utilised less interest-bearing bank borrowings to settle trade payables due to the shrink of purchase scale.

The Group's bank and other borrowings are all denominated in US\$ and bear fixed interest rates. As at 30 June 2017, the annual interest rate of bank borrowings ranged from 1.8% to 2.5% (31 December 2016: 1.8% to 2.2%).

Further details of the Group's bank borrowings are set out in note 20 to the interim condensed financial statements.

None of the Group's bank loans were secured by its assets as at 30 June 2017 and 31 December 2016.

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank and other borrowings) by total equity as at the end of the each period end. The Group's gearing ratio as at 31 December 2016 and 30 June 2017 was approximately 9.9% and approximately 3.7%, respectively. The decrease in gearing ratio was primarily due to less interest-bearing bank borrowings remained outstanding as at 30 June 2017 following the shrink of purchase scale.

Capital expenditure

During 2017 Interim, the Group invested approximately HK\$4.8 million (2016 Interim: approximately HK\$15.9 million) in fixed assets and intangible assets, of which approximately HK\$3.5 million (2016 Interim: approximately HK\$15.4 million) was used for the purchase and upgrade of equipments used for expansion of production facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Off balance sheet transactions

During 2017 Interim, the Group did not enter into any material off balance sheet transactions.

Foreign exchange exposure and exchange rate risk

The Group has transactional currency exposure, which arises from sales in currencies other than the relevant operating units, that is, functional currencies. Approximately 94.7% and 89.1% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 45.3% and 40.3% of inventory costs were denominated in their functional currencies for 2016 Interim and 2017 Interim, respectively.

The Group used forward currency contracts to manage currency risk. However, due to the fluctuation in exchange rate during the period, the Group did not enter into any forward currency contracts during 2017 Interim and had no outstanding forward currency contracts as at 30 June 2017 (31 December 2016: Nil).

Events after the reporting period

There are no significant events occurring after the reporting period of 2017 Interim up to the date of this report.

Treasury policies

The Group has implemented its internal treasury investment policies since January 2015 (updated in December 2015), which provide the guidelines, requirements and approval process with respect to its treasury investment activities. It regularly evaluates the risks and returns of its wealth management products.

Under its treasury investment policies, the Group is only allowed to invest in wealth management products with the two lowest risk rating classified by the banks and debentures with ratings above "BBB" or "baa" or similar ratings. All the treasury products must also meet the following criteria: (i) be issued by well-recognised publicly-listed banks, (ii) no default history, and (iii) have a maturity term of less than one year or can be easily converted into cash in the market. Such treasury investment policies also provide that the outstanding balance of the Group's wealth management products shall not exceed 50% of its total amount of cash and cash equivalents and wealth management products. Any plan to increase this limit must be approved by the Board. No single investment can exceed 35% of the total amount invested.

The Group has an experienced management team and strict procedures in place to ensure the wealth management products are purchased in compliance with its internal policies and requirements under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The management, internal audit and the Board (including the independent non-executive Directors) regularly review its compliance with the treasury investment policies and assess the risk associated with these investments.

The Group's total investment under its treasury policies was approximately HK\$56.7 million as at 30 June 2017 (31 December 2016: approximately HK\$10.4 million). The increase in such investments was for better managing its idle working capital. No listing proceeds were used to invest in the wealth management products.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and emoluments policy

As at 30 June 2017, the Group employed a total of 1,930 employees (31 December 2016: 2,344). The staff costs, excluding directors' emoluments and any contributions to pension scheme, were approximately HK\$102.6 million for 2017 Interim (2016 Interim: approximately HK\$104.2 million), approximately HK\$11.0 million (2016 Interim: approximately HK\$6.0 million) of which are expenses for the Group's share option schemes and share award scheme. All of the Group's employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talent. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme on 29 May 2015 and the share option scheme on 12 June 2015, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes. In addition to the share option schemes, the Group also adopted a share award scheme on 20 September 2016 to: (i) recognise the contributions by certain employees and to provide them with incentives in order to retain talent; and (ii) attract suitable personnel for the Group's further development.

Significant investments held

As at 30 June 2017, the Group held unlisted equity investments of approximately HK\$91.6 million (31 December 2016: approximately HK\$61.2 million). These unlisted equity investments were made in start-up companies which have synergies with the Group's business.

Application of global offering proceeds

The Company was listed on the Stock Exchange on 2 July 2015. The net proceeds raised from the global offering were approximately HK\$613.0 million after deduction of related expenses. The Company applied proceeds from the Listing as follows:

The unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong and Mainland China in accordance with the intention of the Board as disclosed in the prospectus of the Company dated 19 June 2015 (the "Prospectus"). The Company has not utilised and will not utilise any net proceeds for purposes other than those disclosed in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of proceeds	Actual net proceeds HK\$ million	Actual utilisation up to 30 June 2017 HK\$ million	Balance as at 30 June 2017 HK\$ million
Purchase of land or completed properties or offices and purchase of production machinery	226.7	67.4	159.3
Marketing expenditures	116.5	97.4	19.1
Possible mergers and acquisitions	116.5	116.5	–
Research and development expenditures	92.0	92.0	–
Working capital and general corporate purposes	61.3	61.3	–
	613.0	434.6	178.4

Commitment

As at 30 June 2017, the Group's operating lease and capital commitment amounted to approximately HK\$53.0 million (31 December 2016: approximately HK\$44.9 million) and approximately HK\$2.1 million (31 December 2016: approximately HK\$24.9 million), respectively. The slight increase of the lease commitment was resulted from the entering into of new lease agreements with a third party for product and storage purposes. The committed investment of RMB20.0 million in Kandao Lightforge Co., Ltd. was paid in January 2017, which led to the decrease in capital commitment.

Future plans for material investments or capital assets

The Group has made and will continue to make investments in certain start-up companies which have synergies with its business along its value chain when appropriate. The future investments are expected to be funded by internal resources and/or bank borrowings. The Company will make announcements for any investments in accordance with the Listing Rules as and when appropriate.

Material acquisitions and disposals of subsidiaries and associated companies

Save for the investment of RMB20.0 million in Kandao Lightforge Co., Ltd. (the "Transaction"), there is no other material acquisitions and disposals of subsidiaries and associated companies during 2017 Interim. As all applicable percentage ratios as set out in Chapter 14 of the Listing Rules in respect of the Transaction were less than 5%, it was not a notifiable transaction subject to the reporting and announcement requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

As at 30 June 2017, the Group had no significant contingent liabilities.

Dividends

The Board does not recommend the payment of interim dividend for 2017 Interim (2016 Interim: Nil).

OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2017, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company ("Shares"), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Number of Shares or underlying shares ⁽¹⁾				Total interests	Approximate percentage of total issued Shares in the Company
		Personal interests	Family interests	Corporate interests	Other interests		
Tang Wing Fong Terry	Founder of a discretionary trust, beneficiary of a trust and beneficial owner	27,881,002 ⁽²⁾ shares (L)	-	-	419,021,100 ⁽²⁾ shares (L)	446,902,102 shares (L)	52.35%
Wu Yongmou	Founder of a discretionary trust and beneficial owner	271,000 ⁽³⁾ shares (L)	-	-	56,931,000 ⁽³⁾ shares (L)	57,202,000 shares (L)	6.70%
Tang Kam Sau	Interest in a controlled corporation	-	-	39,192,000 ⁽⁴⁾ shares (L)	-	39,192,000 shares (L)	4.59%
Lu Yongbin	Beneficiary of a trust and beneficial owner	2,906,850 ⁽⁵⁾ shares (L)	-	-	898,950 ⁽⁵⁾ shares (L)	3,805,800 shares (L)	0.45%
Huang Erwin Steve	Beneficial owner	2,750,000 ⁽⁶⁾ shares (L)	-	-	-	2,750,000 shares (L)	0.32%
Wong Kee Fung Kenneth	Beneficial owner	750,000 ⁽⁶⁾ shares (L)	-	-	-	750,000 shares (L)	0.09%
Cheung Wah Keung	Beneficial owner	750,000 ⁽⁶⁾ shares (L)	-	-	-	750,000 shares (L)	0.09%
Chan Tsu Ming Louis	Beneficial owner	750,000 ⁽⁶⁾ shares (L)	-	-	-	750,000 shares (L)	0.09%

OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Notes:

- (1) The letter "L" denotes the Directors' long position in the shares of the Company.
- (2) The disclosed interest represents (i) the interest in 417,717,600 Shares held by Fortune Six Investment Ltd., which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited), (ii) his beneficial interest in 1,303,500 Shares held by Fortune Sky Associates Limited by virtue of Mr. Tang Wing Fong Terry being a beneficiary in The Sky Light Employees' Trust, and (iii) his personal interest in 27,881,002 Shares.
- (3) The disclosed interest represents (i) the interest in 56,931,000 Shares held by YongWeiDa Investment Limited, which is wholly owned by Wing Lung Bank (Trustee) Limited as trustee of the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited), and (ii) his personal interest in 271,000 Shares.
- (4) Ms. Tang Kam Sau is the sole shareholder of Uphigh Global Limited, which holds 39,192,000 Shares. By virtue of the SFO, she is deemed to be interested in Uphigh Global Limited's interest in the Company by virtue of the SFO.
- (5) The disclosed interest represents Mr. Lu Yongbin's (i) beneficial interest in 898,950 Shares held by Fortune Sky Associates Limited by virtue of Mr. Lu Yongbin being a beneficiary in The Sky Light Employees' Trust, (ii) his personal interest in 2,696,850 Shares, and (iii) 210,000 unvested share options granted by the Company.
- (6) These represent the share options of the Company granted to the respective directors under the Company's share option scheme. For details, please refer to the section headed "Pre-IPO share option scheme and share option scheme — Share Option Scheme".

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares

To the best knowledge of the Directors, as at 30 June 2017, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name of shareholder	Capacity/nature of interest	Number of shares ⁽¹⁾	Approximate percentage of total issued shares in the Company
Wing Lung Bank (Trustee) Limited ⁽²⁾	Trustee	490,942,500 shares (L)	57.51%
Antopex Limited ⁽²⁾	Nominee for another person	490,942,500 shares (L)	57.51%
Best One International Ltd. ⁽²⁾⁽³⁾	Interest of controlled corporation	417,717,600 shares (L)	48.93%
Fortune Six Investment Ltd. ⁽²⁾⁽³⁾	Beneficial owner	417,717,600 shares (L)	48.93%
YongDingDa Investment Limited ⁽²⁾⁽⁴⁾	Interest of controlled corporation	56,931,000 shares (L)	6.67%
YongWeiDa Investment Limited ⁽²⁾⁽⁴⁾	Beneficial owner	56,931,000 shares (L)	6.67%

OTHER INFORMATION

Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Notes:

- (1) The letter "L" denotes a person's long position in the shares of the Company.
- (2) Wing Lung Bank (Trustee) Limited as trustee holds 490,942,500 Shares by virtue of the SFO as follows:
 - (i) 417,717,600 Shares held by Fortune Six Investment Ltd., which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited);
 - (ii) 56,931,000 Shares held by YongWeiDa Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited); and
 - (iii) 16,293,900 Shares held by Fortune Sky Associates Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for The Sky Light Employees' Trust through Antopex Limited and Brilliant Sky Associates Ltd. (as nominees for Wing Lung Bank (Trustee) Limited).
- (3) The interest of Best One International Limited and Fortune Six Investment Ltd. was also disclosed as the interest of Mr. Tang Wing Fong Terry in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".
- (4) The interest of YongDingDa Investment Limited and YongWeiDa Investment Limited was also disclosed as the interest of Mr. Wu Yongmou in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".

Save as disclosed above, as at 30 June 2017, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

Directors' Interests in Contracts of Significance

Save as disclosed in the note 30 to the interim condensed financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the period under review.

Directors' Interest in Competing Business

During 2017 Interim and up to the date of this report, none of the Directors has any interest in a business apart from the business which competes or is likely to compete, either directly or indirectly, with the Group's business.

Directors' Rights to Acquire Shares or Debenture

Save as disclosed herein, at no time from 1 January 2017 to the date of this report was the Group a party to any arrangements to enable the Directors of the Group to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

The Company is empowered by the applicable Companies Law of the Cayman Islands and the articles of association of the Company to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during 2017 Interim.

Pre-IPO Share Option Scheme and Share Option Scheme

Pre-IPO Share Option Scheme

A Pre-IPO Share Option Scheme was conditionally adopted on 29 May 2015 and will expire on 2 July 2019. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain of our employees, executives and officers made or may have made to the growth of the Group and/or the listing of Shares on the Stock Exchange. The eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers of our Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of our Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to our Company and/or any of the subsidiaries.

The total number of Shares subject to the Pre-IPO Share Option Scheme is 21,024,000 Shares, representing approximately 2.46% of the issued shares as at the date of this report. No further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange. A total of 43 eligible participants were granted options under the Pre-IPO Share Option Scheme on 29 May 2015 ("Pre-IPO SOS Grant Date"). The top participant was granted 3,600,000 shares under the scheme.

HK\$1.00 was payable by each Grantee as consideration for grant of the options. The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme is HK\$0.83. The board of directors of the Company determined the exercise price of the Pre-IPO Share Options by taking into account of, among other matters, (i) the contribution of the grantees, being employees of the Group, made or likely to make to the growth of the business of the Group; and (ii) the impact of the Pre-IPO Share Options on the financial results of the Group.

The Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme of the Company may be exercised by each grantee in the following manner:

- (a) approximately 33% of the option shall become vested and exercisable on the 1st anniversary date of the Listing Date (the "1st Vesting Date"), and the exercise period in respect thereof shall commence on the 1st Vesting Date and end on the day immediately before the 1st anniversary date of the 1st Vesting Date (both dates inclusive);
- (b) approximately 33% of the option shall become vested and exercisable on the 2nd anniversary date of the Listing Date (the "2nd Vesting Date"), and the exercise period in respect thereof shall commence on the 2nd Vesting Date and end on the 1st anniversary date of the 2nd Vesting Date (both dates inclusive); and
- (c) approximately 34% of the option shall become vested and exercisable on the 3rd anniversary date of the Listing Date (the "3rd Vesting Date"), and the exercise period in respect thereof shall commence on the 3rd Vesting Date and end on the 1st anniversary date of the 3rd Vesting Date (both dates inclusive).

OTHER INFORMATION

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Pre-IPO Share Option Scheme *(Continued)*

The following table discloses details of the Company's share options held by the employees and movements in such holding during 2017 Interim:

Name	As at 1 January 2017	Exercised	Cancelled	Lapsed	As at 30 June 2017	Approximate percentage of the total number of Shares in issue as at the date of this report
Employees	15,127,000	4,427,000	–	603,000	10,097,000	1.18%

The valuation of options granted under the Pre-IPO Share Option Scheme was conducted based on the binomial model with the following assumptions:

	At grant date
(i) Expected volatility	39.79%–47.04% per year
(ii) Expected life of options	2.1–4.1
(iii) Average risk-free interest rate	0.44%–0.87% per year
(iv) Expected dividend yield	3.3% per year
(v) Estimated rate of leaving service	0% per year

The expected suboptimal early exercise multiple for the grantees is assumed to be 220% times the exercise price. The post-vesting exit rate for the grantees is assumed to be nil per year.

The Group recognised the total expense of HK\$1,575,000 (2016 Interim: HK\$5,314,000) during 2017 Interim in relation to Pre-IPO Share Option Scheme granted by the Company.

OTHER INFORMATION

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Share Option Scheme

A Share Option Scheme was conditionally adopted on 12 June 2015, which became effective on the Listing Date. The key terms of the scheme are set out below:

- (1) The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:
 - (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
 - (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Eligible Participants refers to:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
 - (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;
 - (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
 - (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
 - (a) contribution to the development and performance of our Group;
 - (b) quality of work performed for our Group;
 - (c) initiative and commitment in performing his/her duties; and
 - (d) length of service or contribution to our Group.
- (2) The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the "Scheme Limit"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

OTHER INFORMATION

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Share Option Scheme *(Continued)*

- (3) The maximum entitlement of each Eligible Participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.
- (4) An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.
- (5) An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.
- (6) Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period ending 12 June 2025.
- (7) The exercise price is determined by the directors of the Company at their discretion and will not be lower than the higher of: (a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the 5 business days immediately preceding the offer date; (c) the nominal value of the Company's share.

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 25,397,000 Shares, representing approximately 2.97% of the total number of Shares in issue.

The Company has granted the following share option under the Share Option Scheme:

Date of grant	27 July 2015 ^(Note 1)	15 September 2016 ^{(Note 2)(Note 3)}	1 December 2016 ^(Note 4)	18 May 2017 ^(Note 5)
(i) Share Options granted as at the date of grant or 1 January 2017	2,000,000	12,861,000	19,900,000	15,000,000
Share Options exercised during the period	–	–	–	–
Share Options cancelled during the period	–	–	–	–
Share Options lapsed during the period	–	543,000	–	–
(ii) Share Options outstanding as at 30 June 2017	2,000,000	12,318,000	19,900,000	15,000,000
Approximate percentage of the total number of Shares in issue as at the date of this report	0.23%	1.44%	2.33%	1.76%
(iii) Exercise price of the Share Options	HK\$3.46	HK\$1.70	HK\$1.986	HK\$2.206
(iv) Closing price immediately before the date of grant	HK\$3.46	HK\$1.56	HK\$2.04	HK\$2.18

OTHER INFORMATION

Pre-IPO Share Option Scheme and Share Option Scheme (Continued)

Share Option Scheme (Continued)

Notes:

(1) On 27 July 2015, share options to subscribe for a total of 2,000,000 Shares were granted to Professor Huang Erwin Steve, a non-executive Director, pursuant to the Share Option Scheme. Maximum of 50% of the share options of the Company ("Share Options") shall become vested and exercisable from 27 July 2016 to 26 July 2019 (both dates inclusive). The remaining 50% of the Share Options shall become vested and exercisable from 27 July 2017 to 26 July 2020 (both dates inclusive). None of the above Share Options was exercised or cancelled or lapsed from the date of grant up to 30 June 2017 and therefore the balance of the outstanding share options as of 30 June 2017 remains the same as 27 July 2015.

(2) On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme.

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2017 and shall be exercisable at any time during the period commencing on 15 September 2017 and ending on 14 September 2022 (both dates inclusive);

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2018 and shall be exercisable at any time during the period commencing on 15 September 2018 and ending on 14 September 2023 (both dates inclusive); and

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2019 and shall be exercisable at any time during the period commencing on 15 September 2019 and ending on 14 September 2024 (both dates inclusive).

(3) Among the Share Options granted on 15 September 2016, 3,000,000 Share Options were granted to the following Directors of the Company, details of which are as follows:

Name of Directors	Position	Share Options as at 1 January 2017	Share Options exercised during the period	Share Options cancelled during the period	Share Options lapsed during the period	Share Options Outstanding as at 30 June 2017	Approximate percentage of shareholding upon full exercise of Share Options granted
Huang Erwin Steve	Non-executive director and external consultant	750,000	-	-	-	750,000	0.09%
Chan Tsu Ming Louis	Independent non-executive director	750,000	-	-	-	750,000	0.09%
Cheung Wah Keung	Independent non-executive director	750,000	-	-	-	750,000	0.09%
Wong Kee Fung Kenneth	Independent non-executive director	750,000	-	-	-	750,000	0.09%

OTHER INFORMATION

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Share Option Scheme *(Continued)*

Notes: *(Continued)*

- (4) On 1 December 2016, 9,900,000 Share Options were granted to certain employees of the Group as “Employee Options” and 10,000,000 Share Options were granted to certain parties who contribute or have contributed to the Group, including an agent developing the Group’s sales channels and members of a supplier of the Group as “Contributor Options”.

For the Share Options granted to employees who are not senior management:

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2017 and shall be exercisable at any time during the period commencing on 1 December 2017 and ending on 30 November 2022 (both dates inclusive);
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2018 and shall be exercisable at any time during the period commencing on 1 December 2018 and ending on 30 November 2023 (both dates inclusive); and
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2019 and shall be exercisable at any time during the period commencing on 1 December 2019 and ending on 30 November 2024 (both dates inclusive).

For the Share Options granted to persons who are senior management:

- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2018 and shall be exercisable at any time during the period commencing on 31 January 2018 and ending on 30 January 2023 (both dates inclusive);
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2019 and shall be exercisable at any time during the period commencing on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); and
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2020 and shall be exercisable at any time during the period commencing on 31 January 2020 and ending on 30 January 2025 (both dates inclusive).

For the Contributor Options granted to members of a supplier of the Group:

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2017 and shall be exercisable at any time during the period commencing on 1 December 2017 and ending on 30 November 2022 (both dates inclusive);
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2018 and shall be exercisable at any time during the period commencing on 1 December 2018 and ending on 30 November 2023 (both dates inclusive); and
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2019 and shall be exercisable at any time during the period commencing on 1 December 2019 and ending on 30 November 2024 (both dates inclusive).

OTHER INFORMATION

Pre-IPO Share Option Scheme and Share Option Scheme (Continued)

Share Option Scheme (Continued)

Notes: (Continued)

(4) (Continued)

For the Contributor Options granted to an agent developing the Group's sales channels:

- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Contributor Options so granted to him/her shall become vested on 31 January 2018 and shall be exercisable at any time during the period commencing on 31 January 2018 and ending on 30 January 2023 (both dates inclusive);
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Contributor Options so granted to him/her shall become vested on 31 January 2019 and shall be exercisable at any time during the period commencing on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); and
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Contributor Options so granted to him/her shall become vested on 31 January 2020 and shall be exercisable at any time during the period commencing on 31 January 2020 and ending on 30 January 2025 (both dates inclusive).

(5) On 18 May 2017, share options to subscribe for a total of 15,000,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme. Among the said Share Options granted, 210,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and a joint company secretary of the Company.

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2018 and shall be exercisable at any time during the period commencing on 18 May 2018 and ending on 17 May 2023 (both dates inclusive);

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2019 and shall be exercisable at any time during the period commencing on 18 May 2019 and ending on 17 May 2024 (both dates inclusive); and

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2020 and shall be exercisable at any time during the period commencing on 18 May 2020 and ending on 17 May 2025 (both dates inclusive).

The valuation of options granted under the Share Option Scheme was conducted based on the binomial model with the following assumptions:

At grant date	18 May 2017	15 September 2016 & 1 December 2016	27 July 2015
(i) Expected volatility	57.63%–61.27% per year	45.69%–65.81% per year	45.69%–46.80% per year
(ii) Expected life of options	6.0–8.0	6.0–8.17	4.0–5.0
(iii) Average risk-free interest rate	1.16%–1.22% per year	1.44%–2.09% per year	1.47%–1.66% per year
(iv) Expected dividend yield	5.32% per year	3.93%–5.32% per year	3.93% per year
(v) Estimated rate of leaving service	25% per year	0%–25% per year	0% per year

The Group recognised the total expense of HK\$6,423,000 (2016 Interim: HK\$667,000) during 2017 Interim in relation to Share Option Scheme granted by the Company.

OTHER INFORMATION

Share Award Scheme

On 20 September 2016, the Company adopted a share award scheme (the "Scheme") with major terms and details set out below. Unless otherwise stated, terms defined in the Company's announcement dated 20 September 2016 shall have the same meaning when used herein:

(1) Purpose

The purposes of the Scheme are:

- (i) to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and
- (ii) to attract suitable personnel for further development of the Group.

(2) Duration

Subject to any early termination as may be determined by the Board pursuant to the Scheme Rules, the Scheme shall be valid and effective from 20 September 2016 to the date the last of the Awarded Shares has been vested and transferred to the relevant Selected Employee or has lapsed in accordance with the Scheme Rules provided that no Award shall be made on or after the 10th anniversary date of 20 September 2016.

(3) Administration

- (i) The Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules and the terms of the Trust Deed.
- (ii) The Trustee shall during the trust period hold the Trust Shares, the Awarded Shares, the related income, the returned shares and the residual cash in accordance with the terms of the Trust Deed.
- (iii) The Board may from time to time issue implementation and operation manual for the Scheme.

(4) Scheme Limit

- (i) The Board shall not make any further award of Awarded Shares which will result in the number of Shares awarded by the Board under the Scheme exceeding 10 per cent (10%) of the issued share capital of the Company as at 20 September 2016.
- (ii) The maximum number of Shares which may be awarded to a Selected Employee under the Scheme shall not exceed 2.5 per cent (2.5%) of the issued share capital of the Company as at 20 September 2016.

OTHER INFORMATION

Share Award Scheme *(Continued)*

(5) Operation of Scheme

Subject to the Scheme Rules, the Board may, from time to time, at its absolute discretion select any Employee for participation in the Scheme as a Selected Employee and determine the number of the Awarded Shares for each of them and notify the Trustee of its decision. In determining the number of Awarded Shares for a Selected Employee, the Board may take into consideration matters including without limitation, the general financial condition of the Group and the rank and performance of the relevant Selected Employee.

The Board is entitled to impose any conditions (including without limitation, the performance, operating and financial targets and other criteria, if any, to be satisfied by the Selected Employee) as it deems appropriate in its sole and absolute discretion before the Awarded Shares can vest. In addition, Awarded Shares held by the Trustee upon Trust and which are referable to a Selected Employee shall vest to that Selected Employee in accordance with a vesting schedule determined at the discretion of the Board, provided that the Selected Employee shall remain at all times after the grant of the Award and on each relevant Vesting Date(s) as Employee.

Subject to the Scheme Rules and compliance with the Listing Rules, the articles of association of the Company, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and any other applicable laws and regulations, the Board may, at any time and from time to time at its absolute discretion having regards to, inter alia, the financial position of the Company, the cash position of the Company and the market price of the Shares at the relevant time, either before or after identification of the Selected Employee(s) (i) cause the Company to issue and allot such number of new Shares to the Trustee as Trust Shares, or (ii) cause the Trustee to purchase the Shares on the market as Trust Shares from the Company's funds.

In the event that the grant of an Award to any connected person of the Company constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, the Company will comply with the applicable reporting, announcement and/or independent shareholders' approval requirements.

(6) Lapse

Save as provided in the Scheme Rules, in the event that prior to or on the Vesting Date in respect of a Selected Employee, (i) the relevant Selected Employee died, (ii) the relevant Selected Employee ceases to be an Employee, (iii) the relevant subsidiary of the Company by which a Selected Employee is employed ceases to be a subsidiary of the Company (or of a member of the Group), or (iv) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, the Award shall, unless the Board otherwise agrees, lapse forthwith.

In the event that prior to or on the Vesting Date (i) a Selected Employee is found to be an Excluded Employee, or (ii) a Selected Employee fails to return duly executed transfer documents prescribed by the Trustee for the relevant Awarded Shares within the stipulated period, the relevant part of the Award made to such Selected Employee shall, unless the Board otherwise agrees, lapse forthwith.

(7) Restrictions

No Award shall be made by the Board and no Shares or payment (as the case may be) shall be delivered or made to the Trustee and no instructions to acquire Shares and allot new Shares shall be given to the Trustee under the Scheme where any Director is in possession of inside information in relation to the Group or where dealings in Shares by Directors are prohibited under any code or requirement of the Listing Rules and all applicable laws from time to time.

OTHER INFORMATION

Share Award Scheme *(Continued)*

The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules. Up to 30 June 2017, a total of 6,558,000 Awarded Shares, which were purchased from the secondary market, were granted to an employee of the Group under the above Share Award Scheme. Details of the Share Award Schemes during the period are set out in note 26 to the interim condensed consolidated financial statements.

According to the rules of the Share Award Scheme, the Board may exercise its discretion to instruct the Trustee to subscribe for new Shares from the Company pursuant the general mandate or a specific mandate to be approved by shareholders in general meeting, in particular, at a time when the Board is of the view that the purchase of old Shares may have a significant impact to the secondary market and may not be in the interest of the shareholders as far as the trading prices and trading volume are concerned before or after identification of the Selected Employees to be allocated with Awarded Shares under the Scheme Rules.

Nevertheless, the Board confirms that it has no current intention to instruct the Trustee to subscribe for new Shares from the Company before identification of the Selected Employees to be allocated with Awarded Shares under the Scheme Rules.

Audit Committee

The Company established an audit committee ("Audit Committee") on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems, nominate and monitor external auditors and provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, being Mr. Wong Kee Fung Kenneth, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Wong Kee Fung Kenneth currently serves as the chairman of our Audit Committee.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the unaudited interim results and interim report for 2017 Interim.

Ernst & Young, the external auditors of the Company, have reviewed the interim financial information of the Group for the 2017 Interim.

Remuneration Committee

The Company established a remuneration committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration of the Directors and senior management. The remuneration committee consists of three members, being Mr. Wong Kee Fung Kenneth (independent non-executive Director), Mr. Tang Wing Fong Terry and Mr. Chan Tsu Ming Louis (independent non-executive Director). Mr. Wong Kee Fung Kenneth currently serves as the chairman of the remuneration committee.

OTHER INFORMATION

Nomination Committee

The Company established a nomination committee on 12 June 2015 with its written terms of reference by reference to the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board on the selection of candidates for any Director and senior management positions. The nomination committee comprises three members, being Mr. Tang Wing Fong Terry, Mr. Chan Tsu Ming Louis (independent non-executive Director) and Mr. Wong Kee Fung Kenneth (independent non-executive Director). Mr. Tang Wing Fong Terry currently serves as the chairman of the nomination committee.

Corporate Governance Practices

The Company believes that maintaining high standards of corporate governance is the foundation for effective management and successful business growth. The Company is committed to developing and maintaining robust corporate governance practices to safeguard the interests of Shareholders and to enhance corporate value, accountability and transparency of the Company.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Listing Rules as the basis of the Company’s corporate governance practices. Throughout the period from 1 January 2017 up to the date of this report, the Company has complied with all applicable code provisions of the CG Code except for code provision A.2.1.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman of the Board (“Chairman”) and chief executive of the Company are performed by Mr. Tang Wing Fong Terry, the Company has deviated from the code provision A.2.1. The Board considers that having Mr. Tang Wing Fong Terry acting as both the Chairman and the chief executive officer of the Company will provide a strong and consistent leadership to the Company and allow for more effective planning and management for the Group. In view of Mr. Tang’s extensive experience in the industry, personal profile and critical role in the Group and its historical development, the Board considers that it is beneficial to the business prospects of the Group that Mr. Tang continues to act as both the Chairman and the chief executive officer of the Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct governing its directors’ securities transactions. Specific enquiries have been made with all the Directors and they have confirmed that they have complied with the Model Code throughout the period from the 1 January 2017 up to the date of this report.

The Company has also established written guidelines on terms no less exacting than the Model Code (the “Employees Written Guidelines”), for securities transactions by relevant employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during 2017 interim. In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its directors and relevant employees in advance.

OTHER INFORMATION

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules from 1 January 2017 up to the date of this report.

Changes in Information of Directors

Pursuant to Rule 13.51B (1) of the Listing Rules, the changes in information of Directors subsequent to the date of 2016 annual report of the Company are set out below:

Directors	Details of changes
Professor Huang Erwin Steve	<p>Appointed as Associate Professor on Engineering Practice and Adjunct Professor of ISOM of The Hong Kong University of Science and Technology on 1 January 2017.</p> <p>Founded DreamStarter Limited on 23 May 2017.</p> <p>Ceased to act as the Vice Chairman of Senior Citizen Home Safety Association in May 2017.</p> <p>Ceased to act as the President of Hong Kong Information Technology Federation (HKITF) in June 2017.</p> <p>Ceased to act as the chairman of eLearning Consortium in July 2017.</p>
Dr. Cheung Wah Keung	<p>Appointed as the independent non-executive director of Casablanca Group Limited, a company listed on the Stock Exchange (stock code: 2223), with effect from 26 May 2017.</p>

By the order of the Board
Sky Light Holdings Limited
Tang Wing Fong Terry
Chairman

Hong Kong
31 August 2017

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the board of directors of Sky Light Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Sky Light Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 33 to 68, which comprise the interim condensed consolidated statement of financial position as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months then ended, and the explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “*Interim Financial Reporting*” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

31 August 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
REVENUE	5	306,028	559,681
Cost of sales		(240,462)	(427,390)
Gross profit		65,566	132,291
Other income and gains	5	12,703	8,134
Selling and distribution expenses		(93,786)	(16,865)
Administrative expenses		(62,558)	(52,155)
Research and development costs		(72,520)	(59,269)
Other expenses		(12,285)	(3,459)
Finance costs	7	(788)	(933)
(LOSS)/PROFIT BEFORE TAX	6	(163,668)	7,744
Income tax expense	8	(2,685)	(3,918)
(LOSS)/PROFIT FOR THE PERIOD		(166,353)	3,826
Attributable to:			
Owners of the parent		(166,353)	3,826
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		HK(19.7) cents	HK0.5 cents
Diluted		HK(19.7) cents	HK0.5 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
	Note	2017	2016
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
(LOSS)/PROFIT FOR THE PERIOD		(166,353)	3,826
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments	17	206	–
Exchange differences on translation of foreign operations		12,298	(8,488)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		12,504	(8,488)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(153,849)	(4,662)
Attributable to:			
Owners of the parent		(153,849)	(4,662)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	111,432	121,387
Prepaid land lease payments	13	2,752	2,800
Goodwill	14	93,089	93,089
Intangible assets	12	35,874	37,512
Available-for-sale investments	17	91,625	61,180
Prepayments and other receivables	18	13,676	6,879
Deferred tax assets	23	11,176	13,437
Total non-current assets		359,624	336,284
CURRENT ASSETS			
Inventories	15	197,763	169,788
Trade receivables	16	120,801	285,823
Bills receivable		3,866	9,610
Available-for-sale investments	17	10,606	10,400
Due from a related party	30	804	1,184
Prepayments, deposits and other receivables	18	91,895	91,136
Cash and cash equivalents	19	293,332	480,436
Total current assets		719,067	1,048,377
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	20	31,995	100,984
Trade payables	21	103,761	171,831
Bills payable		1,918	2,593
Other payables and accruals	22	72,863	73,969
Tax payable		4,778	5,475
Due to related parties	30	271	370
Total current liabilities		215,586	355,222

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
NET CURRENT ASSETS		503,481	693,155
TOTAL ASSETS LESS CURRENT LIABILITIES		863,105	1,029,439
NON-CURRENT LIABILITIES			
Deferred tax liabilities	23	5,394	6,126
Total non-current liabilities		5,394	6,126
Net assets		857,711	1,023,313
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	8,537	8,493
Shares held for Share Award Scheme	26	(14,000)	(14,000)
Reserves	27	863,174	1,028,820
Total equity		857,711	1,023,313

Tang Wing Fong Terry
Director

Lu Yongbin
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the parent									
	Share capital	Shares held for share award scheme	Share premium account	Capital reserve	Share award reserve	Share option reserve	Reserve fund	Retained profits	Exchange fluctuation reserve	Total equity
	HK\$'000 (note 24)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	8,493	(14,000)	684,805	148,297	641	17,065	37,050	184,866	(43,904)	1,023,313
Loss for the period	-	-	-	-	-	-	-	(166,353)	-	(166,353)
Other comprehensive income for the period:										
Changes in fair value of available-for-sale investments	-	-	-	206	-	-	-	-	-	206
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	12,298	12,298
Total comprehensive loss for the period	-	-	-	206	-	-	-	(166,353)	12,298	(153,849)
Issue of shares by exercise of share options (note 24(b))	44	-	8,889	-	-	(5,259)	-	-	-	3,674
Equity-settled share option arrangements (note 25)	-	-	-	-	-	7,998	-	-	-	7,998
Equity-settled share award scheme arrangements (note 26)	-	-	-	-	3,847	-	-	-	-	3,847
Final 2016 dividend declared and paid	-	-	-	-	-	-	-	(27,272)	-	(27,272)
At 30 June 2017 (unaudited)	8,537	(14,000)	693,694 [#]	148,503 [#]	4,488 [#]	19,804 [#]	37,050 [#]	(8,759) [#]	(31,606) [#]	857,711

Note:

[#] These reserve accounts comprise the consolidated reserves of HK\$863,174,000 in the interim condensed consolidated statement of financial position as at 30 June 2017 (31 December 2016: HK\$1,028,820,000).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the parent							Total equity HK\$'000
	Share capital HK\$'000 (note 24)	Share premium account HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Reserve fund HK\$'000	Retained profits HK\$'000	Exchange fluctuation reserve HK\$'000	
At 1 January 2016	8,003	633,364	148,483	8,182	37,050	189,561	(13,857)	1,010,786
Profit for the period	-	-	-	-	-	3,826	-	3,826
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(8,488)	(8,488)
Total comprehensive loss for the period	-	-	-	-	-	3,826	(8,488)	(4,662)
Equity-settled share option arrangements (note 25)	-	-	-	5,981	-	-	-	5,981
Final 2015 dividend declared and paid	-	-	-	-	-	(58,423)	-	(58,423)
At 30 June 2016 (unaudited)	8,003	633,364	148,483	14,163	37,050	134,964	(22,345)	953,682

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

		Six months ended 30 June	
	Notes	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(163,668)	7,744
Adjustments for:			
Finance costs	7	788	933
Interest income	5	(1,367)	(3,129)
Write-down/(reversal of write-down) of inventories to net realisable value	6	7,750	(694)
Fair value losses, net:			
Derivative instruments — transactions not qualifying as hedges	6	—	765
Depreciation	6	15,606	17,457
Amortisation of prepaid land lease payments	6	48	47
Amortisation of intangible assets	6	3,744	505
Loss on disposal of items of property, plant and equipment	6	16	890
Impairment other receivables	6	5,430	—
Equity-settled share option expense	25	7,998	5,981
Equity-settled share award scheme expense	26	3,847	—
		(119,808)	30,499
(Increase)/decrease in inventories		(37,275)	116,853
Decrease in trade and bills receivables		170,766	119,489
Decrease in amounts due from a related party		380	445
Decrease in prepayments, deposits and other receivables		33,807	29,095
Decrease in trade and bills payables		(68,745)	(49,592)
Decrease in amounts due to related parties		(99)	(328)
Decrease in other payables and accruals		(1,106)	(75,469)
Cash (used in)/generated from operations		(22,080)	170,992
Tax paid		(1,853)	(3,840)
Net cash flows (used in)/from operating activities		(23,933)	167,152

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(5,720)	(8,987)
Prepayment for investment		–	(43,222)
Acquisition of a subsidiary		–	(4,247)
Purchase of available-for-sale investments		(30,445)	(15,557)
Settlement of derivative financial instruments		–	(4,458)
Interest received		1,367	3,129
Decrease in pledged deposits		–	32,527
Gross proceeds from disposals of items of property, plant and equipment		1,434	774
Net cash used in investing activities		(33,364)	(40,041)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		75,334	39,276
Repayments of bank loans		(144,323)	(212,009)
Interest paid		(788)	(933)
Dividends paid		(27,272)	(58,423)
Issue of shares by exercise of share options	24(b)	3,674	–
Net cash flows used in financing activities		(93,375)	(232,089)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		480,436	629,990
Effect of foreign exchange rate, net		9,655	(5,396)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		339,419	519,616
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	293,332	368,320
Non-pledged time deposits with original maturity of less than three months when acquired	19	–	151,296
Cash and cash equivalents as stated in the statement of financial position	19	293,332	519,616
Investment deposits with original maturity of less than three months when acquired	18	46,087	–
Cash and cash equivalents as stated in the statement of cash flows		339,419	519,616

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

1. Corporate Information

The Company is a limited liability company incorporated in the Cayman Islands on 18 December 2013. The Company's registered office address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 July 2015.

The Company is an investment holding company. During the period, the Company's subsidiaries were principally engaged in:

- Manufacture and distribution of home surveillance cameras
- Manufacture and distribution of action camera products and related accessories
- Manufacture and distribution of digital imaging products
- Manufacture and distribution of other electronic products

In the opinion of the directors of the Company (the "Directors"), the immediate holding company and the ultimate holding company of the Company is Fortune Six Investment Ltd., a company incorporated in the British Virgin Islands.

2. Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

The interim condensed consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. The interim condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of the new or revised standards, interpretation and amendments as of 1 January 2017, noted below:

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 27 (2011) <i>Annual Improvements</i> <i>2012–2014 Cycle</i>	<i>Equity Method in Separate Financial Statements</i> <i>Amendments to a number of HKFRSs</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. Operating Segment Information

The Group focused primarily on the manufacture and selling of home surveillance cameras and action camera products and related accessories during the period. Information reported to the Group's management, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

4. Operating Segment Information *(Continued)*

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
United States of America (the "US")	233,016	489,066
Mainland China	26,827	43,654
European Union	32,470	20,097
Other overseas countries	13,715	6,864
	306,028	559,681

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Mainland China	125,475	131,142
Hong Kong	126,942	124,773
Other countries	4,406	5,752
	256,823	261,667

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

4. Operating Segment Information *(Continued)*

Information about major customers

Revenue derived from sales to a single customer, which accounted for 10% or more of the total revenue, is set out below:

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Customer A	73,594	57,488
Customer B	59,759	111,183
Customer C	48,862	97,164
Customer D	1,079	145,712

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue		
Sale of goods	306,028	559,681
Other income and gains		
Bank interest income	1,367	3,129
Government grants:		
Related to income*	10,908	2,518
Exchange gains	–	2,087
Others	428	400
	12,703	8,134

* The amount mainly represents rewards or subsidies on research activities received from the local government. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

6. (Loss)/Profit before Tax

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Cost of inventories sold		232,712	428,084
Depreciation	11	15,606	17,457
Amortisation of prepaid land lease payments	13	48	47
Amortisation of intangible assets*	12	3,744	505
Research and development costs		72,520	59,269
Minimum lease payments under operating leases		9,505	8,642
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		82,856	98,263
Pension scheme contributions		8,692	10,061
Equity-settled share option expense		7,202	5,981
Equity-settled share award scheme expense		3,847	–
		102,597	114,305
Write-down/(reversal of write-down) of inventories to net realisable value		7,750	(694)
Impairment of other receivables		5,430	–
Fair value losses, net:			
Derivative instruments — transactions not qualifying as hedges		–	765
Exchange losses/(gains), net		4,983	(2,087)
Loss on disposal of items of property, plant and equipment		16	890
Bank interest income	5	(1,367)	(3,129)
Government grants	5	(10,908)	(2,518)

* The amortisation of software is included in "Research and development costs" and the amortisation of other intangible assets is included in "Selling and distribution expenses" in the interim condensed consolidated statement of profit or loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

7. Finance Costs

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loans	788	933

8. Income Tax Expense

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the reporting period.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatments were available to two (2016: two) of the Group's principal operating subsidiaries, Sky Light Electronics (Shenzhen) Limited and Sky Light Technology (Heyuan) Limited, since they were recognised as High and New Technology Enterprises and they were entitled to a preferential tax rate of 15% for the six months ended 30 June 2017 and 2016.

The Group's subsidiaries in the United States are subject to the federal tax rate of 35%, and also subject to the statutory applicable state corporate income tax.

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current — Mainland China	242	436
Current — Hong Kong	914	3,004
Deferred (note 23)	1,529	478
Total tax charge for the period	2,685	3,918

9. Dividends

The directors do not recommend the payment of any interim dividend during the period (six months ended 30 June 2016: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

10. (Loss)/Earnings per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic loss/earnings per share amount is based on the loss/profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 844,084,000 (six months ended 30 June 2016: 800,319,000) in issue during the period.

For the six months ended 30 June 2016, the calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

For the six months ended 30 June 2017, as anti-dilutive effect is resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculations	(166,353)	3,826
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	844,084,000	800,319,000
Effect of dilution — weighted average number of ordinary shares: Share options and shares awarded	—	4,400,000
Adjusted weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	844,084,000	804,719,000
Basic earnings per share	HK(19.7) cents	HK0.5 cents
Diluted earnings per share	HK(19.7) cents	HK0.5 cents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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11. Property, Plant and Equipment

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
30 June 2017 (Unaudited)						
At 1 January 2017:						
Cost	6,789	13,888	171,401	3,480	23,354	218,912
Accumulated depreciation	(767)	(7,060)	(76,830)	(1,766)	(11,102)	(97,525)
Net carrying amount	6,022	6,828	94,571	1,714	12,252	121,387
At 1 January 2017, net of accumulated depreciation	6,022	6,828	94,571	1,714	12,252	121,387
Additions	-	-	1,619	-	1,855	3,474
Disposals	-	(821)	(621)	-	(8)	(1,450)
Depreciation provided during the period (note 6)	(147)	(630)	(10,278)	(328)	(4,223)	(15,606)
Exchange realignment	123	462	2,783	45	214	3,627
At 30 June 2017, net of accumulated depreciation	5,998	5,839	88,074	1,431	10,090	111,432
At 30 June 2017:						
Cost	6,929	10,480	177,481	3,445	25,738	224,073
Accumulated depreciation	(931)	(4,641)	(89,407)	(2,014)	(15,648)	(112,641)
Net carrying amount	5,998	5,839	88,074	1,431	10,090	111,432

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

11. Property, Plant and Equipment *(Continued)*

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
31 December 2016 (Audited)						
At 1 January 2016:						
Cost	7,098	9,054	175,812	3,985	17,415	213,364
Accumulated depreciation	(491)	(5,175)	(56,111)	(1,611)	(8,912)	(72,300)
Net carrying amount	6,607	3,879	119,701	2,374	8,503	141,064
At 1 January 2016, net of						
accumulated depreciation	6,607	3,879	119,701	2,374	8,503	141,064
Acquisition of subsidiaries	–	130	141	76	1,168	1,515
Additions	–	5,048	12,918	791	8,254	27,011
Disposals	–	(242)	(2,854)	(693)	(1,264)	(5,053)
Depreciation provided during the year	(304)	(1,885)	(28,501)	(713)	(3,920)	(35,323)
Exchange realignment	(281)	(102)	(6,834)	(121)	(489)	(7,827)
At 31 December 2016, net of						
accumulated depreciation	6,022	6,828	94,571	1,714	12,252	121,387
At 31 December 2016:						
Cost	6,789	13,888	171,401	3,480	23,354	218,912
Accumulated depreciation	(767)	(7,060)	(76,830)	(1,766)	(11,102)	(97,525)
Net carrying amount	6,022	6,828	94,571	1,714	12,252	121,387

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying value of HK\$4,100,000 as at 30 June 2017 (31 December 2016: HK\$4,092,000) have not yet been issued by the relevant Mainland China authorities. The Group is in the process of obtaining these certificates.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. Intangible Assets

	Trademarks HK\$'000	Technology licencing agreement HK\$'000	Software HK\$'000	Total HK\$'000
30 June 2017 (Unaudited)				
Cost at 1 January 2017, net of accumulated amortisation	23,512	3,565	10,435	37,512
Additions	630	–	730	1,360
Amortisation provided during the period (note 6)	(1,697)	(1,429)	(618)	(3,744)
Exchange realignment	165	26	555	746
At 30 June 2017, net of accumulated amortisation	22,610	2,162	11,102	35,874
At 30 June 2017:				
Cost	24,700	4,066	14,478	43,244
Accumulated amortisation	(2,090)	(1,904)	(3,376)	(7,370)
Net carrying amount	22,610	2,162	11,102	35,874
31 December 2016 (Audited)				
Cost at 1 January 2016, net of accumulated amortisation	–	–	11,529	11,529
Acquisition of subsidiaries	23,905	4,040	–	27,945
Additions	–	–	1,081	1,081
Amortisation provided during the year	(393)	(475)	(784)	(1,652)
Exchange realignment	–	–	(1,391)	(1,391)
At 31 December 2016, net of accumulated amortisation	23,512	3,565	10,435	37,512
At 31 December 2016:				
Cost	23,905	4,040	13,193	41,138
Accumulated amortisation	(393)	(475)	(2,758)	(3,626)
Net carrying amount	23,512	3,565	10,435	37,512

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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13. Prepaid Land Lease Payments

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Carrying amount at 1 January	2,895	2,990
Recognised during the period/year (note 6)	(48)	(95)
Carrying amount at 30 June/31 December	2,847	2,895
Current portion included in prepayments, deposits and other receivables (note 18)	(95)	(95)
Non-current portion	2,752	2,800

The Group's leasehold land is situated in Hong Kong and held under a medium term lease.

14. Goodwill

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Cost and net carrying amount at 1 January	93,089	–
Acquisition of a subsidiary	–	93,089
Cost and net carrying amount at 30 June/31 December	93,089	93,089
At 30 June/31 December		
Cost	93,089	93,089
Accumulated impairment	–	–
Net carrying amount	93,089	93,089

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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15. Inventories

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Raw materials	94,591	45,380
Work in progress	53,182	39,064
Finished goods	49,990	85,344
	197,763	169,788

16. Trade Receivables

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Trade receivables	120,801	285,823
Impairment	–	–
	120,801	285,823

The Group requires most of its customers to make payment in advance, however, the Group grants certain credit periods to those customers with good payment history. The credit period for specific customers is considered on a case-by-case basis and is set out in the sales contracts, as appropriate.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and the carrying amounts of the trade receivables approximate to their fair values.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. Trade Receivables *(continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Within 30 days	61,520	252,171
31 to 60 days	32,476	14,206
61 to 90 days	2,016	6,844
Over 90 days	24,789	12,602
	120,801	285,823

An ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Neither past due nor impaired	93,094	248,652
Less than 60 days past due	26,395	28,369
Over 60 days past due	1,312	8,802
	120,801	285,823

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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17. Available-For-Sale Investments

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current assets		
Unlisted equity investments, at cost	91,625	61,180
Current		
Investment deposits, at fair value	10,606	10,400

During the period, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK\$206,000 (six months ended 30 June 2016: Nil), of which none (six months ended 30 June 2016: Nil) was reclassified from other comprehensive income to the statement of profit or loss for the period.

As at 30 June 2017 and 31 December 2016, the Group's current available-for-sale investments represented investments in several wealth management contracts and the fair values of the wealth management contracts approximated to their carrying amounts.

As at 30 June 2017 and 31 December 2016, the Group's non-current available-for-sale investments represented investments in unlisted equity. These unlisted equity investments were made in start-up companies which have synergy with the Group's business. These unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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18. Prepayments, Deposits and Other Receivables

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current assets		
Prepayments	7,585	6,879
Other receivables	6,091	–
	13,676	6,879
Current assets		
Prepayments	15,945	8,137
Investment deposits*	46,087	–
Deposits and other receivables	29,768	82,904
Prepaid land lease payments (note 13)	95	95
	91,895	91,136

* Investment deposits as at 30 June 2017 represented investments in wealth management products purchased from licensed banks in Mainland China, with an aggregate amount of HK\$46,087,000 (31 December 2016: Nil). The investment deposits were classified by the Group as loans and receivables and measured at amortised cost. The investment deposits bore fixed interest return rates in the range of 3.1% to 3.3% per annum.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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19. Cash and Cash Equivalents

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Cash and bank balances	293,332	402,885
Time deposits	–	77,551
	293,332	480,436
Cash and cash equivalents	293,332	480,436
Cash and bank balances denominated in		
— Renminbi (“RMB”)	71,193	72,858
— United States dollars (“US\$”)	89,756	232,101
— HK\$	130,645	174,136
— Other currencies	1,738	1,341
Cash and cash equivalents	293,332	480,436

The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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20. Interest-Bearing Bank and Other Borrowings

Current	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Bank loans — unsecured	1.8~2.5	2017	31,995	1.8~2.2	2017	100,984
				30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)	
Analysed into:						
Bank loans:						
Within one year				31,995	100,984	

The Group's banking facilities amounting to HK\$300,805,000 as at 30 June 2017 (31 December 2016: HK\$290,755,000), of which HK\$31,995,000 (31 December 2016: HK\$100,984,000) had been utilised as at the end of the reporting period.

All borrowings are denominated in United States dollars.

21. Trade Payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Within 30 days	41,786	85,476
31 to 60 days	34,593	43,548
61 to 90 days	11,380	20,444
Over 90 days	16,002	22,363
	103,761	171,831

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

22. Other Payables and Accruals

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Deposits received from customers	28,634	10,704
Other payables	18,279	19,979
Salary and welfare payables	24,382	39,920
Accruals	1,568	3,366
	72,863	73,969

Salary and welfare payables are non-interest-bearing and are payable on demand. Other payables and accruals are non-interest-bearing and are due to mature within one year.

23. Deferred Tax

The movements in deferred tax assets and liabilities during the period are as follows:

Deferred tax assets

	Inventory provision HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 30 June 2017 (Unaudited)			
At 31 December 2016 and 1 January 2017	9,072	4,365	13,437
Deferred tax charged to the statement of profit or loss during the period (note 8)	(2,261)	–	(2,261)
At 30 June 2017	6,811	4,365	11,176

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

23. Deferred Tax *(continued)*

Deferred tax assets (continued)

	Inventory provision HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 31 December 2016 (Audited)			
At 1 January 2016	5,354	–	5,354
Deferred tax credited to the statement of profit or loss during the year	3,718	4,365	8,083
At 31 December 2016	9,072	4,365	13,437

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary HK\$'000	Withholding taxes HK\$'000	Total HK\$'000
At 30 June 2017 (Unaudited)			
At 31 December 2016 and 1 January 2017	5,255	871	6,126
Deferred tax credited to the statement of profit or loss during the period (note 8)	(732)	–	(732)
At 30 June 2017	4,523	871	5,394

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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23. Deferred Tax *(continued)*

Deferred tax liabilities (continued)

	Fair value adjustments arising from acquisition of a subsidiary HK\$'000	Withholding taxes HK\$'000	Total HK\$'000
At 31 December 2016 (Audited)			
At 1 January 2016	–	871	871
Acquisition of a subsidiary	5,510	–	5,510
Deferred tax credited to the statement of profit or loss during the year	(255)	–	(255)
At 31 December 2016	5,255	871	6,126

Deferred tax assets have not been recognised in respect of the following items:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Tax losses	202,564	39,085
Deductible temporary differences	24,293	17,706
	226,857	56,791

The above tax losses and deductible temporary differences are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% for the year. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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24. Share Capital

Shares

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Issued and fully paid 853,704,000 (31 December 2016: 849,277,000) ordinary shares	8,537	8,493

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2016 (Audited)	800,319,000	8,003	633,364	641,367
Issue of new shares (a)	48,000,000	480	49,920	50,400
Share options exercised (b)	958,000	10	1,924	1,934
	849,277,000	8,493	685,208	693,701
Share issue expenses (a)	–	–	(403)	(403)
At 31 December 2016 and 1 January 2017 (Audited)	849,277,000	8,493	684,805	693,298
Share options exercised (b)	4,427,000	44	8,889	8,933
At 30 June 2017 (Unaudited)	853,704,000	8,537	693,694	702,231

(a) On 3 October 2016, the Company placed an aggregate of 48,000,000 ordinary shares of HK\$0.01 each for a total consideration of HK\$50,400,000, before share issue expenses of HK\$403,000. The consideration received in excess of the par value of these placed shares of approximately HK\$49,517,000 was credited to the share premium account.

(b) The subscription rights attaching to 4,427,000 (year ended 31 December 2016: 958,000) share options were exercised at the subscription price of HK\$0.83 per share during the period ended 30 June 2017, resulting in the issue of 4,427,000 (year ended 31 December 2016: 958,000) shares for a total cash consideration of HK\$3,674,000 (year ended 31 December 2016: HK\$795,000). An amount of HK\$5,259,000 (year ended 31 December 2016: HK\$1,139,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

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25. Share Option Schemes

The Company has adopted two share option schemes (the “Schemes”, including the “Pre-IPO Share Option Scheme” and the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Schemes include employees, advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the board of directors of the Company, in their sole discretion, consider have contributed or may contribute to the Group.

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme became effective on 29 May 2015. The following share options were outstanding under the Pre-IPO Share Option Scheme of the Company during the period:

Date of grant	At 1 January 2017	Numbers of share options			At 30 June 2017	Exercise period (both dates inclusive)	Exercise price per share
		Granted during the period	Exercised during the period	Forfeited during the period			
29/05/2015	15,127,000	–	(4,427,000)	(603,000)	10,097,000	02/07/2016–02/07/2019	0.83

Date of grant	At 1 January 2016	Numbers of share options			At 30 June 2016	Exercise period (both dates inclusive)	Exercise price per share
		Granted during the period	Exercised during the period	Forfeited during the period			
29/05/2015	18,864,000	–	–	(1,350,000)	17,514,000	02/07/2016–02/07/2019	0.83

Notes:

- One-third of these share options are exercisable on the 1st anniversary date of 2 July 2015, a further one-third are exercisable on the 2nd anniversary date of 2 July 2015, and the remaining one-third are exercisable on the 3rd anniversary date of 2 July 2015.
- The fair value of the share options granted on 29 May 2015 was HK\$24,973,000 (HK\$1.18783 each), of which the Group recognised a share option expense of HK\$1,575,000 during the period (six months ended 30 June 2016: HK\$5,314,000).
- The following assumptions were used to derive the fair value, using the binomial model:

Options granted on 29 May 2015

	At grant date
(i) Expected volatility	39.79%–47.04% per year
(ii) Expected life of options	2.1–4.1
(iii) Average risk-free interest rate	0.44%–0.87% per year
(iv) Expected dividend yield	3.3% per year
(v) Estimated rate of leaving service	0% per year

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25. Share Option Schemes (Continued)

Pre-IPO Share Option Scheme (Continued)

The 4,427,000 share options exercised during the period resulted in the issue of 4,427,000 ordinary shares of the Company and new share capital of HK\$44,000 (before issue expenses), as further detailed in note 24(b) to the financial statements.

As at 30 June 2017, the Company had 10,097,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,097,000 additional ordinary shares of the Company and additional share capital of HK\$101,000 and share premium of HK\$20,273,000 (before issue expenses).

Share Option Scheme

The following share options were outstanding under the Share Option Scheme of the Company during the period:

(Unaudited)		Numbers of share options			At 30 June 2017	Exercise period (both dates inclusive)	Exercise price per share
Date of grant	At 1 January 2017	Granted during the period	Forfeited during the period				
(i)	27/07/2015	2,000,000	–	–	2,000,000	27/07/2016–26/07/2020	3.46
(ii)	15/09/2016	12,861,000	–	(543,000)	12,318,000	15/09/2017–14/09/2024	1.70
(iii)	01/12/2016	19,900,000	–	–	19,900,000	01/12/2017–30/01/2025	1.986
(iv)	18/05/2017	–	15,000,000	–	15,000,000	18/05/2018–17/05/2025	2.206
		34,761,000	15,000,000	(543,000)	49,218,000		

(Unaudited)		Numbers of share options			At 30 June 2016	Exercise period (both dates inclusive)	Exercise price per share
Date of grant	At 1 January 2016	Granted during the period	Forfeited during the period				
(i)	27/07/2015	2,000,000	–	–	2,000,000	27/07/2016–26/07/2020	3.46

Notes:

- (i) One-half of these share options are exercisable on the 1st anniversary date of 27 July 2015, and the remaining one-half are exercisable on the 2nd anniversary date of 27 July 2015.

The fair value of the share options granted on 27 July was HK\$1,814,000 (HK\$0.907 each), of which the Group recognised a share option expense HK\$240,000 during the period (six months ended 30 June 2016: HK\$667,000).

- (ii) One-third of these share options shall become vested on the 1st anniversary date of 15 September 2016, a further one-third shall become vested on the 2nd anniversary date of 15 September 2016, and the remaining one-third shall become vested on the 3rd anniversary date of 15 September 2016.

The fair value of the share options granted on 15 September 2016 was HK\$8,111,000 (HK\$0.62672 each), of which the Group recognised a share option expense HK\$2,229,000 during the period (six months ended 30 June 2016: Nil).

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25. Share Option Schemes *(continued)*

Share Option Scheme (continued)

Notes: *(continued)*

- (iii) One-third of these share options shall become vested on the 1st anniversary date of 1 December 2016, a further one-third shall become vested on the 2nd anniversary date of 1 December 2016, and the remaining one-third shall become vested on the 3rd anniversary date of 1 December 2016.

The fair value of the share options granted on 1 December 2016 was HK\$13,990,000 (HK\$0.703 each), of which the Group recognised a share option expense of HK\$3,448,000 during the period (six months ended 30 June 2016: Nil).

- (iv) One-third of these share options shall become vested on the 1st anniversary date of 18 May 2017, a further one-third shall become vested on the 2nd anniversary date of 18 May 2017, and the remaining one-third shall become vested on the 3rd anniversary date of 18 May 2017.

The fair value of the share options granted on 18 May 2017 was HK\$10,416,000 (HK\$0.6944 each), of which the Group recognised a share option expense of HK\$506,000 during the period (six months ended 30 June 2016: Nil).

The following assumptions were used to derive the fair value, using the binomial model:

At grant date	18 May 2017	15 September 2016 & 1 December 2016	27 July 2015
(i) Expected volatility	57.63%–61.27% per year	45.69%–65.81% per year	45.69%–46.80% per year
(ii) Expected life of options	6.0–8.0	6.0–8.17	4.0–5.0
(iii) Average risk-free interest rate	1.16%–1.22% per year	1.44%–2.09% per year	1.47%–1.66% per year
(iv) Expected dividend yield	5.32% per year	3.93%–5.32% per year	3.93% per year
(v) Estimated rate of leaving service	25% per year	0%–25% per year	0% per year

As at 30 June 2017, the Company had 49,218,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 49,218,000 additional ordinary shares of the Company and additional share capital of HK\$492,000 and share premium of HK\$133,920,000 (before issue expenses).

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26. Share Award Scheme

A share award scheme was adopted on 20 September 2016 (the "Share Award Scheme"). The Share Award Scheme is to recognise the contributions made by certain employees and to provide them with incentives in order to maintain the continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

The awarded shares will be acquired by an independent trustee ("the Trustee") from the open market by utilizing the Company's resources provided to the Trustee. The maximum number of shares in respect of which shares may be granted under the Share Award Scheme and which may be awarded to a selected employee shall not exceed 10% and 2.5% respectively of the issued share capital of the Company as at 20 September 2016.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Scheme, the scheme shall be valid and effective from 20 September 2016 to the date the last of the awarded shares has been vested and transferred to the relevant selected employee or has lapsed in accordance with the terms provided that no award shall be made on or after 10 years of 20 September 2016.

During the period, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme.

The following share award were outstanding under the Share Award Scheme of the Company during the period:

(Unaudited) Date of grant	Numbers of awarded shares			At 30 June 2017	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2017	Granted during the period	Forfeited during the period			
29/11/2016	6,558,000	–	–	6,558,000	19/12/2017–19/12/2019	–

Notes:

- In 2016, based on the Company's instructions, the Trustee has purchased a total of 6,558,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK\$1.79 to HK\$2.30 per share at a total consideration (including related transaction costs) of approximately HK\$14,000,000.
- The Company granted 6,558,000 shares to a certain employee on 29 November 2016, which will be vested in tranches of one-third each on every anniversary date of the grant date starting from the first anniversary date until the third anniversary date.
- The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.92) on the day of the grant, amounted to HK\$12,591,000, of which the Group recognised a share award expense of HK\$3,847,000 during the period.

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27. Reserves

The amounts of the Group's reserves and the movements therein for the current period and prior period are presented in the consolidated statement of changes in equity on pages 37 to 38 of the financial statements.

Reserve fund

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

28. Operating Lease Arrangements

As lessee

The Group leases certain of its plant, office premises and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to eight years.

At 30 June 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Within one year	18,502	14,808
In the second to fifth years, inclusive	34,262	26,087
After five years	229	4,040
	52,993	44,935

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29. Commitments

In addition to the operating lease commitments detailed in note 28 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Contracted, but not provided for:		
Unpaid investment amount	–	22,359
Plant and machinery	2,130	2,576
	2,130	24,935

30. Related Party Transactions

(1) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the reporting period:

	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Rental expenses:		
XinYongYi Technology Park (Heyuan) Limited ("XinYongYi")	2,442	3,328

The rental expenses were paid to XinYongYi, which was controlled by a director of the Company, for a lease of plant and office premises located in Heyuan and were charged at a monthly rental of HK\$407,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$555,000). The rental was made according to negotiation with the counterparty.

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30. Related Party Transactions *(Continued)*

(2) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	3,172	3,086
Post-employment benefits	91	78
Equity-settled share option and share award scheme expenses	5,479	1,626
Total compensation paid to key management personnel	8,742	4,790

(3) Outstanding balances with related parties

	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Due from a related party:		
XinYongYi	804	1,184
Due to related parties:		
Shenzhen Yongyida Electronics Co.,Ltd. ("Yongyida")	40	39
XinYongYi	231	331
	271	370

These balances are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate their fair values. All the above balances were generated from operating activities.

31. Approval of the Condensed Consolidated Financial Statements

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 were approved and authorised for issue by the board of directors of the Company on 31 August 2017.