

INTERIM REPORT 2020

Sky Light Holdings Limited
天彩控股有限公司

Stock Code **3882**

Incorporated in the Cayman Islands with limited liability



Sky Light Holdings Limited



2020

INTERIM REPORT

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Financial Highlights

| | Six months ended 30 June | | CHANGE |
|--|---------------------------------|---------------------------------|------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) | |
| REVENUE | 157,568 | 265,647 | (40.7%) |
| COST OF SALES | (125,354) | (230,683) | (45.7%) |
| GROSS PROFIT | 32,214 | 34,964 | (7.9%) |
| GROSS PROFIT MARGIN (%) | 20.4% | 13.2% | 7.2 p.p.t. |
| LOSS FOR THE PERIOD | (22,463) | (34,539) | (35.0%) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT BASIC AND DILUTED (EXPRESSED IN HK\$ PER SHARE) | HK\$(2.2) cents | HK\$(3.7) cents | (40.5%) |
| TOTAL EQUITY | 245,033 | 329,864 | (25.7%) |

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

Ms. Tang Kam Sau
Mr. Wu Yongmou (resigned on 27 July 2020)

Independent Non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Committees of the Board

Audit Committee

Mr. Tse Yat Hong (*Chairman*)
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Remuneration Committee

Mr. Tse Yat Hong (*Chairman*)
Mr. Tang Wing Fong Terry
Mr. Chan Tsu Ming Louis

Nomination Committee

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Tse Yat Hong
Mr. Chan Tsu Ming Louis

Authorized Representatives

Mr. Tang Wing Fong Terry
Mr. Lu Yongbin

Company Secretary

Mr. Lu Yongbin

Registered Office

Second Floor, Century Yard, Cricket Square
P.O. Box 902, Grand Cayman, KY1-1103
Cayman Islands

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

No. 8 & 9 Building
Antuoshan High-tech Industrial Park
Xinsha Road, Shajing, Bao'An
Shenzhen
PRC

Principal Place of Business in Hong Kong

Room 1910 19/F 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
16th–19th Floors, Prince's Building
10 Charter Road
Central
Hong Kong

Corporate Information

Cayman Islands Principal Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard, Cricket Square
P.O. Box 902, Grand Cayman, KY1-1103
Cayman Islands

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Banker

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”), together with its subsidiaries (together, the “Group”), is principally engaged in the sales, development and manufacture of home surveillance cameras, 360-degree cameras, video conference devices, 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 decades of experience spanning a diverse range of digital imaging products, the Group differentiates itself from other manufacturers by offering both design-driven joint design manufacturing (“JDM”) and original design manufacturing (“ODM”) one stop solutions to customers.

In order to provide value-added for shareholders, the company is seeking to become a branddriven, one-stop, vertically integrated smart imaging devices and solutions provider.

For the six months ended 30 June 2020 (“2020 Interim”), home surveillance cameras of the Group’s JDM/ODM business was still a major revenue source. Although, the number of order decreased caused by the trade war between the China and the US since last year, the Group has been consolidating the markets in the United States by moving the production line to Vietnam and actively explore the market in other countries.

In view of the online educational market which is growing rapidly in China, the Group formed a subsidiary “深圳六點作業科技有限公司” to engineer a new product to penetrate a niche market in offering the device as an online teaching assistant to guide students doing their homework.

JDM/ODM business

For the 2020 Interim, the Group’s turnover from the JDM/ODM business significantly dropped by approximately HK\$108.0 million to HK\$157.6 million from approximately HK\$265.6 million for the six months ended 30 June 2019 (“2019 Interim”). The decrease in revenue for 2020 Interim was primarily due to the following reasons:

- (i) There were reduced orders and delayed shipments from certain customers arising from the lower demand of the consumer market as a direct consequence of the outbreak of coronavirus (“COVID-19”) globally during the period.
- (ii) The Company originally planned to shift most of the Group’s production to its new Vietnam manufacturing facilities in the first half of 2020, however, the Chinese supervisors and engineers of the Group were not able to travel to Vietnam due to the entry restrictions implemented by the Vietnam government in response to the COVID-19 pandemic.
- (iii) The temporary suspension of the manufacturing facilities of the Group and the temporary suspension of certain raw material suppliers in China and Vietnam, respectively, due to the COVID-19 prevention measures implemented by the relevant local government also affected the operation and supply of raw materials to the Group respectively in the first quarter of 2020.

The Group’s loss in the first half of 2020 significantly reduced to approximately HK\$22.5 million compared to approximately HK\$34.5 million for the same period of 2019. The decrease in net loss was primarily due to more stringent cost control measures during the period.

Management Discussion and Analysis

Prospects

The Group considers that worldwide economy in 2020 will be greatly affected by the aggravation of protectionism and spread of the COVID-19. In order to lower the risk of the protectionism, our manufacturing facilities in Vietnam will become a major production site. With travel restrictions relaxed in July, our Chinese supervisors and engineers team immediately entered Vietnam at the first available opportunity and started supporting production. This is expected to have a positive impact on the Group's production and business recovery in the second half of 2020.

We will dedicate additional resource to develop products and business for on-line education and automobile imaging. In order to improve our financial result and turnaround as soon as possible, we will work hard to increase market share and deliver high-quality products and solutions to our customers by pursuing the following strategies:

- Continue to develop innovative products and explore other potential product lines and business capitalizing on our extensive and in-depth technical know-how;
- Actively explore the market in Japan, Europe and Mainland China;
- Save cost by optimizing and improving the operations of our factories in China and Vietnam.

Financial review

Turnover

The Group's products mainly consist of the following three categories: (i) home surveillance cameras, (ii) digital imaging products, and (iii) other products. It generates revenue predominantly from sales of these products, as well as from other income, such as research and development ("R&D") service and tooling fees associated with products that it manufactures for customers. The following table sets out the breakdown of the revenue from sales of major products by product type for the periods indicated:

| | Six months ended 30 June | | | | |
|---------------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|-------------------|
| | 2020 HK\$'000 (Unaudited) | % of total revenue | 2019 HK\$'000 (Unaudited) | % of total revenue | Revenue change |
| Home surveillance cameras | 38,488 | 24.4% | 99,968 | 37.6% | (61.5%) |
| Digital imaging products | 88,827 | 56.4% | 67,692 | 25.5% | 31.2% |
| Other products | 30,253 | 19.2% | 97,987 | 36.9% | (69.1%) |
| TOTAL | 157,568 | 100.0% | 265,647 | 100.0% | (40.7%) |

For 2020 Interim, the Group recorded a turnover of approximately HK\$157.6 million from the JDM/ODM business (2019 Interim: approximately HK\$265.6 million), representing a significant decrease of approximately 40.7% as compared to 2019 Interim. The decrease was mainly due to the reduced orders and delayed shipment from certain customers arising from the low demand of the consumer market resulting from the outbreak of COVID-19, and the COVID-19 prevention measures implemented by the relevant local government also affected the supply of raw materials to the Group and lowered the operating efficiencies of the Group's manufacturing.

Management Discussion and Analysis

The Group sells its products mainly to customers in the US and European Union and it is expected that the US and European Union market will continue to account for majority of the Group's revenue in the foreseeable future. The following table sets out the breakdown of revenue by location of customers for the periods indicated:

| | Six months ended 30 June | |
|---------------------------|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| United States of America | 90,565 | 144,667 |
| Mainland China | 24,039 | 29,456 |
| European Union | 29,500 | 81,371 |
| Other countries and areas | 13,464 | 10,153 |
| TOTAL | 157,568 | 265,647 |

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, mainly including depreciation of production equipment and indirect labour.

For 2020 Interim, cost of sales of the Group amounted to approximately HK\$125.4 million (2019 Interim: approximately HK\$230.7 million), representing a decrease of approximately 45.7% as compared to 2019 Interim, and amounted to approximately 79.6% (2019 Interim: approximately 86.8%) of its turnover for 2020 Interim. This decrease was mainly attributable to (i) the significant decrease in the shipment units of home surveillance cameras, and (ii) the Group's stringent cost control during 2020 Interim.

Gross profit and gross profit margin

| | Six months ended 30 June | |
|---------------------|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Revenue | 157,568 | 265,647 |
| Cost of sales | 125,354 | 230,683 |
| Gross Profit | 32,214 | 34,964 |
| Gross Profit Margin | 20.4% | 13.2% |

Management Discussion and Analysis

The Group recorded a gross profit of approximately HK\$32.2 million for 2020 Interim (2019 Interim: approximately HK\$35.0 million), representing a decrease of approximately 7.9% as compared to 2019 Interim. The gross profit margin increased from approximately 13.2% for 2019 Interim to approximately 20.4% for 2020 Interim. This increase was mainly attributable to (i) reduction of approximately HK\$10.2 million of the impairment losses for inventories, and (ii) the sales of digital imaging products with higher gross profit margin increased by approximately 31.2% as compared to 2019 Interim.

Other income and gains

Other income and gains mainly include (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.

For 2020 Interim, other income and gains of the Group significantly increased by approximately 59.2% to approximately HK\$8.9 million as compared to 2019 Interim, which was primarily attributable to an increase of approximately HK\$2.1 million in government subsidies.

Selling and distribution expenses

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

For 2020 Interim, selling and distribution expenses of the Group slightly increased by approximately 1.5% to approximately HK\$13.3 million from approximately HK\$13.1 million for 2019 Interim, mainly due to the increase of the wages and advertising for new product development and sales approximately HK\$1.2 million.

Administrative expenses

Administrative expenses mainly include (i) salaries and benefits of the Group’s management, administrative and finance staff; (ii) rental and office expenses; (iii) professional fees; and (iv) entertainment expenses.

For 2020 Interim, administrative expenses of the Group slightly decreased by approximately 1.3%. The decrease was mainly due to the Group’s stringent cost control during 2020 Interim.

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 2020 Interim, the Group recorded research and development costs of approximately HK\$22.9 million, which decreased by approximately 20.3% from approximately HK\$28.8 million for 2019 Interim. The decrease was mainly due to the Group’s stringent cost control during 2020 Interim.

Management Discussion and Analysis

Other expenses

Other expenses include principally impairment losses of assets.

For 2020 Interim, other expenses of the Group decreased to approximately HK\$1.9 million from approximately HK\$6.9 million for 2019 Interim. The decrease was mainly due to exchange losses decreased by approximately HK\$4.1 million.

Finance costs

For 2020 Interim, the finance costs of the Group decreased to approximately HK\$1.2 million (2019 Interim: approximately HK\$1.7 million), representing a decrease by approximately 27.4% as compared to 2019 Interim. The decrease was mainly due to interest on leasing decreased by approximately HK\$0.3 million.

Income tax expense

For 2020 Interim, there was no income tax expense of the Group due to the loss for the period (2019 Interim: approximately HK\$0.04 million).

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK\$22.5 million for 2020 Interim (attributable to non-controlling interests was a loss of approximately HK\$1.9 million).

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. 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 | |
|--|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Net cash flows from operating activities | 29,466 | 18,009 |
| Net cash flows from/(used in) investing activities | 2,985 | (2,379) |
| Net cash flows used in financing activities | (17,537) | (6,749) |
| Net increase in cash and cash equivalents | 14,914 | 8,881 |
| Cash and cash equivalents at beginning of period | 106,899 | 95,132 |
| Effect of foreign exchange rate changes, net | (5,651) | 1,894 |
| Cash and cash equivalents at end of period | 116,162 | 105,907 |

Management Discussion and Analysis

Net cash from operating activities for 2020 Interim was approximately HK\$29.5 million, which primarily reflected (i) the adjusted loss before tax of approximately HK\$22.5 million; (ii) the decrease in trade receivables of approximately HK\$50.3 million; (iii) the decrease in trade payables of approximately HK\$28.0 million; and (iv) the decrease in prepayments and other receivables of approximately HK\$2.1 million.

Net cash from investing activities for 2020 Interim was approximately HK\$3.0 million. This mainly consisted of (i) payment of approximately HK\$0.4 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; (ii) the gross proceeds from disposals of items of property, plant and equipment of approximately HK\$3.0 million; and (iii) the interest received of approximately HK\$0.4 million.

Net cash used in the financing activities for 2020 Interim was approximately HK\$17.5 million, which was mainly reflected (i) the net repayment of bank borrowings of approximately HK\$9.6 million; (ii) the principal portion of lease payments approximately HK\$7.7 million; and (iii) the interest paid of approximately HK\$0.2 million.

The Group's cash and cash equivalents were mainly denominated in US\$, HK\$, VN\$ and RMB as at 30 June 2020.

Borrowing and the pledge of assets

The Group's banking facilities amounting to HK\$23.0 million as at 30 June 2020 (31 December 2019: HK\$23.0 million), of which HK\$7.0 million (31 December 2019: HK\$16.7 million) had been utilised as at the end of the reporting period.

The Group's banking facility amounting to HK\$23.0 million is secured by an insurance and a wealth management product purchased from the bank.

The Group's bank and other borrowings are all at fixed interest rate and denominated in US\$. As at 30 June 2020, the annual interest rate of bank borrowings ranged from 3.2% to 3.3% (31 December 2019: 3.1% to 4.0%).

Save as disclosed above, as at 30 June 2020, there was no charges on the assets of the Group.

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank borrowings) by total equity as at the end of the each period. The Group's gearing ratio as at 31 December 2019 and 30 June 2020 was approximately 6.1% and approximately 2.9%, respectively. The decrease in gearing ratio was primarily due to the significant decrease in outstanding interest-bearing bank borrowings.

Capital expenditure

During 2020 Interim, the Group invested approximately HK\$0.6 million (2019 Interim: approximately HK\$7.0 million) in fixed assets and intangible assets.

Off balance sheet transactions

During 2020 Interim, the Group did not enter into any material off balance sheet transactions.

Management Discussion and Analysis

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 95.2% and 80.7% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 53.8% and 70.7% of inventory costs were denominated in their functional currencies for 2019 Interim and 2020 Interim, respectively.

During the period, there was no material impact to the Group arising from the fluctuation in the exchange rates of these currencies. The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its foreign exchange exposure during 2020 Interim (31 December 2019: Nil).

Events after the reporting period

As COVID-19 caused the severe and unexpected disruptions throughout the world, certain business operations of the Group's, in particular, the supply chain and customer orders have been impacted. The board of directors will continuously evaluate further effect that could be caused by COVID-19 on the business operation and financial position of the Group and make timely disclosure of any important matters.

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 Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The management, internal auditors and the Board (including the independent non-executive Directors) regularly review its compliance with the treasury investment policies and assess the risks associated with these investments.

During 2020 Interim, the Group did not have any investment under its treasury policies.

Management Discussion and Analysis

Employees and emoluments policy

As at 30 June 2020, the Group employed a total of 947 employees (31 December 2019: 1,200). The staff costs of the Group, excluding directors' emoluments and any contributions to pension scheme, were approximately HK\$42.8 million for 2020 Interim (2019 Interim: approximately HK\$62.6 million), approximately HK\$0.2 million (2019 Interim: reversed approximately HK\$5.8 million) of which are the expenses for the Group's share option schemes. 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 talents. 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 and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes.

Significant investments held

The Group currently held 9.82% equity interest in a start-up company, Kandao Technology Co., Ltd. The investment was acquired by the Group from the period November 2016 to January 2017 at an initial amount of HK\$45.4 million.

Kandao Technology Co., Ltd was established on January 2016, which focuses on the technology and development of software and hardware for imaging electronics products. The main products includes 6-eye 8K resolution three-dimensional professional panoramic camera, 8K resolution consumer panoramic camera and 360-degree smart conference video.

The company's products have won the best innovation award in the Consumer Electronics Show of digital imaging category.

As at 30 June 2020, the investment accounted for 5.8% of the Group's total assets and the fair value of this investment held by the group was approximately HK\$25.1 million (31 December 2019: approximately HK\$26.1 million) presenting HK\$1.0 million unrealized loss during 2020 Interim. No dividend was received from this investment during 2020 interim (2019 interim: Nil).

The directors believe that imaging products and solutions will be widely used with different applications, especially in the upcoming 5G era.

The Group will continue to hold this unlisted equity investment for the following reasons:

- (i) This investment still has potential for growth in the future;
- (ii) This investment has synergies with the Group's business and can widen sales channel.

Saved as disclosed above, there is no investment held by the Group with a value of 5% or more of the Company's total assets as at 30 June 2020.

Management Discussion and Analysis

Future plans for material investments or capital assets

In the near term, the Group did not have any plans for material investments or capital assets as at the date of this report.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during 2020 Interim.

Contingent liabilities

As at 30 June 2020, the Group had no significant contingent liabilities.

Dividends

The Board does not recommend the payment of interim dividend for 2020 Interim (2019 Interim: Nil).

Financial position as at 30 June 2020

As at 30 June 2020, the Group's total equity was approximately HK\$245.0 million (31 December 2019: approximately HK\$273.3 million), total assets amounted to HK\$430.4 million (31 December 2019: approximately HK\$499.7 million) and total liabilities stood at HK\$185.4 million (31 December 2019: approximately HK\$226.4 million).

Other Information

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

As at 30 June 2020, the interests or short positions of the Directors and the 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 Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

| Name of director | Nature of interest | Number of shares ⁽¹⁾ | Interest in underlying shares of share option ⁽¹⁾ | Approximate percentage of total issued shares in the Company ⁽⁷⁾ |
|---|---|---------------------------------|--|---|
| Mr. Tang Wing Fong Terry ⁽²⁾ | Founder of a discretionary trust and beneficial owner | 640,296,557 (L) | – | 67.21% |
| Mr. Wu Yongmou ⁽⁶⁾ | Beneficial owner | 2,905,000 (L) | – | 0.30% |
| Ms. Tang Kam Sau ⁽³⁾ | Interest in a controlled corporation | 39,192,000 (L) | – | 4.11% |
| Mr. Lu Yongbin ⁽⁴⁾ | Beneficial owner | 3,851,800 (L) | 756,000 (L) | 0.48% |
| Mr. Tse Yat Hong ⁽⁵⁾ | Beneficial owner | – | 1,500,000 (L) | 0.16% |
| Dr. Cheung Wah Keung ⁽⁵⁾ | Beneficial owner | – | 1,500,000 (L) | 0.16% |
| Mr. Chan Tsu Ming Louis ⁽⁵⁾ | Beneficial owner | – | 1,500,000 (L) | 0.16% |

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 beneficially held by Fortune Six Investment Ltd., which is wholly-owned by CMB Wing Lung (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 CMB Wing Lung (Trustee) Limited), and Mr. Tang Wing Fong Terry was deemed to be interested in the 417,717,600 Shares by virtue of Part XV of the SFO, and (ii) his personal interest in 222,578,957 Shares.
- (3) 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.
- (4) The disclosed interest represents Mr. Lu Yongbin's (i) his personal interest in 3,851,800 Shares, and (ii) 756,000 underlying Shares in respect of the share options granted under the share option scheme adopted by the Company on 12 June 2015.
- (5) These represent the share options of the Company granted to the respective directors under the Company's share option scheme adopted by the Company on 12 June 2015. For details, please refer to the section headed "Other Information" of this report.
- (6) Mr. Wu Yongmou resigned on 27 July 2020.
- (7) Based on a total of 952,739,455 Shares in issue as at 30 June 2020.

Other Information

Save as disclosed above, as at 30 June 2020, none of the Directors or the 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.

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

To the best knowledge of the Directors, as at 30 June 2020, 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 ⁽⁴⁾ |
|--|------------------------------------|---------------------------------|---|
| CMB Wing Lung (Trustee) Limited ⁽²⁾ | Trustee | 417,717,600 (L) | 43.84% |
| Antopex Limited ⁽²⁾ | Nominee for another person | 417,717,600 (L) | 43.84% |
| Best One International Limited ⁽²⁾⁽³⁾ | Interest of controlled corporation | 417,717,600 (L) | 43.84% |
| Fortune Six Investment Limited ⁽²⁾⁽³⁾ | Beneficial owner | 417,717,600 (L) | 43.84% |

Notes:

- (1) The letter "L" denotes a person's long position in the shares of the Company.
- (2) CMB Wing Lung (Trustee) Limited as trustee holds 417,717,600 Shares by virtue of the SFO. The Shares beneficially held by Fortune Six Investment Limited, which is wholly-owned by CMB Wing Lung (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 CMB Wing Lung (Trustee) Limited). Each of Best One International Limited, Antopex Limited and CMB Wing Lung (Trustee) Limited was deemed to be interested in the 417,717,600 Shares by virtue of Part XV of the SFO.
- (3) The interest of Best One International Limited and Fortune Six Investment Limited 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) Based on a total of 952,739,455 Shares in issue as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, 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.

Save as disclosed above, as at 30 June 2020, none of the Director is a director or employee of a company which had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Other Information

Directors' Interests in Contracts of Significance

Save as disclosed in the note 26 to the interim condensed financial statements, no Director or an entity connected with the Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its Controlling Shareholders (as defined in the Listing Rules), holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

Directors' Interest in Competing Business

During 2020 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 2020 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.

Purchase, Sale or Redemption of Listed Securities

The Company is empowered by the applicable Companies Law, Cap 22 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 2020 Interim.

Use of Proceeds from the Issue of Equity Securities

On 15 January 2019, the Company issued and allotted 95,605,455 new shares at the issue price of HK\$0.55 per share for the capitalization of the outstanding loans in the total amount of HK\$52,583,000. The net proceeds HK\$52,583,000 were fully utilized for repayment of shareholders' loan in 2019. No unused proceeds brought forward to 2020 Interim. For details, please refer to note 23 to the interim condensed consolidated financial statements of this report.

Share Option Scheme

A share option scheme (the "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 made 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.

Other Information

“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, 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.
- (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.

Other Information

- (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 39,969,000 Shares, representing approximately 4.20% of the total number of Shares in issue.

A summary of the movements of the share options under the Share Option Scheme during 2020 interim are as follows:

| Date of grant | 15 September 2016 ^(Note 1) | 1 December 2016 ^(Note 2) | 18 May 2017 ^(Note 3) | 26 April 2018 ^(Note 4) | 16 May 2019 ^(Note 5) |
|---|--|--|------------------------------------|--------------------------------------|------------------------------------|
| (i) Share Options granted as at the date of grant or 1 January 2020 | 8,325,000 | 4,000,000 | 8,643,000 | 9,123,000 | 12,696,000 |
| Share Options exercised during the period | – | – | – | – | – |
| Share Options cancelled during the period | – | – | – | – | – |
| Share Options lapsed during the period | 522,000 | – | 786,000 | 687,000 | 771,000 |
| (ii) Share Options outstanding as at 30 June 2020 | 7,803,000 | 4,000,000 | 7,857,000 | 8,436,000 | 11,925,000 |
| Approximate percentage of the total number of Shares in issue as at the date of this report | 0.82% | 0.42% | 0.82% | 0.89% | 1.25% |
| (iii) Exercise price of the Share Options: | HK\$1.70 | HK\$1.986 | HK\$2.206 | HK\$0.94 | HK\$0.42 |
| (iv) Closing price immediately before the date of grant | HK\$1.56 | HK\$2.04 | HK\$2.18 | HK\$0.93 | HK\$0.40 |
| (v) Exercise period and vesting period | (note 6) | (note 7) | (note 8) | (note 9) | (note 10) |

Notes:

- (1) On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 15 September 2016. Among the Share Options granted on 15 September 2016, 750,000 Share Options were granted to Mr. Chan Tsu Ming Louis, an independent non-executive Director of the Company and 750,000 Share Options were granted to Dr. Cheung Wah Keung, an independent non-executive Director of the Company.
- (2) 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" based on the terms set out in the Company's announcement dated 1 December 2016.
- (3) 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 based on the terms set out in the Company's announcement dated 18 May 2017. Among the said Share Options granted, 210,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company.

Other Information

- (4) On 26 April 2018, share options to subscribe for a total of 12,522,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 26 April 2018. Among the said Share Options granted, 252,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company, 750,000 Shares were granted to Mr. Tse Yat Hong, an independent non-executive Director of the Company.
- (5) On 16 May 2019, 13,110,000 share options were granted to certain eligible employees pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 16 May 2019. Among the said Share Options granted, 294,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company, 750,000 Shares were granted to Mr. Tse Yat Hong, an independent non-executive Director of the Company, 750,000 Shares were granted to Dr. Cheung Wah Keung, an independent non-executive Director of the Company and 750,000 Shares were granted to Mr. Chan Tsu Ming Louis, an independent non-executive Director of the Company.
- (6) One-third of these share options became 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), a further one-third became 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 the remaining one-third became 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).
- (7)
 - (a) For the share options granted to the employees who are not senior management, one-third of these share options became 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), a further one-third became 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 the remaining one-third became 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);
 - (b) For the share options granted to persons who are senior management, (i) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became 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); (ii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became 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 (iii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options 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);
 - (c) For the share options granted to members of a supplier of the Group, one-third of these share options became 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), a further one-third became 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 the remaining one-third became 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); and
 - (d) For the share options granted to an agent developing the Group's sales channels, (i) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became 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); (ii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became 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); (iii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became 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).
- (8) One-third of these share options became 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), a further one-third became 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 the remaining one-third became vested on 18 May 2020 and shall be exercisable at any time during the period commencing on the 18 May 2020 and ending on 17 May 2025 (both dates inclusive).
- (9) One-third of these share options became vested on 26 April 2019 and shall be exercisable at any time during the period commencing on 26 April 2019 and ending on 25 April 2024 (both dates inclusive), a further one-third became vested on 26 April 2020 and shall be exercisable at any time during the period commencing on 26 April 2020 and ending on 25 April 2025 (both dates inclusive), and the remaining one-third shall become vested on 26 April 2021 and shall be exercisable at any time during the period commencing on 26 April 2021 and ending on 25 April 2026 (both dates inclusive).
- (10) One-third of these share options became vested on 16 May 2020 and shall be exercisable at any time during the period commencing on 16 May 2020 and ending on 15 May 2021 (both dates inclusive), a further one-third shall become vested on 16 May 2021 and shall be exercisable at any time during the period commencing on 16 May 2021 and ending on 15 May 2022 (both dates inclusive), and the remaining one-third shall become vested on 16 May 2022 and shall be exercisable at any time during the period commencing on 16 May 2022 and ending on 15 May 2023 (both dates inclusive).

Other Information

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

| At grant date | 15 September 2016 & 1 December 2016 | 18 May 2017 | 26 April 2018 | 16 May 2019 |
|--|--|---------------|---------------|---------------|
| (i) Expected volatility (per year) | 45.69%–65.81% | 57.63%–61.27% | 59.03%–62.75% | 59.67%–61.87% |
| (ii) Expected life of options (year) | 6.0–8.17 | 6.0–8.0 | 6.0–8.0 | 2.0–4.0 |
| (iii) Average risk-free interest rate (per year) | 1.44%–2.09% | 1.16%–1.22% | 2.11%–2.13% | 1.56%–1.69% |
| (iv) Expected dividend yield (per year) | 3.93%–5.32% | 5.32% | 5.74% | 5.32% |
| (v) Estimated rate of leaving service (per year) | 0%–25% | 25% | 27.5% | 27.5% |

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The amount will either be transferred to share capital when the related share options are exercised, or be transferred to retained profits when the related share options expire or be forfeited.

The Group recognized share option expense of approximately HK\$0.30 million during 2020 Interim (2019 Interim: reversed expense of approximately HK\$2.02 million) in relation to the share options granted by the Company.

During the 2020 Interim Period, no share options were granted under the Share Option Scheme.

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 of the Company 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 2020 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.

Other Information

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 2020 up to the date of this report.

The Company has also established written guidelines on terms no less exacting terms 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 2020 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.

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 information and reporting process, risk management and internal control systems and effectiveness of internal audit function, to monitor scope of audit and 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. Tse Yat Hong, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Tse Yat Hong currently serves as the chairman of our Audit Committee.

The Group’s unaudited condensed consolidated financial statements for 2020 Interim have not been audited by the Company’s auditor but have been reviewed by the Audit Committee, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards and requirements, and fairly present the Group’s financial position and results for the 2020 Interim.

Ernst & Young, the external auditors of the Company, have reviewed the interim financial information of the Group for the 2020 Interim.

Nomination Committee

The Company established Nomination Committee on 12 June 2015 with its written terms of reference by reference to the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board, procedures for nomination and appointment, to assess the independence of independent non-executive Directors; and 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 (chairman of the Board), Mr. Chan Tsu Ming Louis (independent non-executive Director) and Mr. Tse Yat Hong (independent non-executive Director). Mr. Tang Wing Fong Terry currently serves as the chairman of the Nomination Committee.

Other Information

Remuneration Committee

The Company established 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 review and make recommendations to the Board on the remuneration of the Directors and senior management, remuneration policy and structure for all Directors and senior management, and establish transparent procedures for developing such remuneration policy and structure. The Remuneration Committee consists of three members, being Mr. Tse Yat Hong (independent non-executive Director), Mr. Tang Wing Fong Terry (chairman of the Board) and Mr. Chan Tsu Ming Louis (independent non-executive Director). Mr. Tse Yat Hong currently serves as the chairman of the Remuneration Committee.

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 2020 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 2019 annual report of the Company are set out below:

| Director | Details of changes |
|------------------|--|
| Mr. Tse Yat Hong | Appointed as the independent non-executive Director of China Bohai Bank Co., Ltd, a company listed on the Stock Exchange (stock code: 9668), with effect from 11 June 2020 |
| Mr. Wu Yongmou | Resigned as the non-executive director of the Company with effect from 27 July 2020 |

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

Hong Kong
28 August 2020

Report on Review of Interim Condensed Consolidated Financial Statements



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Independent review report

To the board of directors of Sky Light Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 24 to 52, which comprises the condensed consolidated statement of financial position of Sky Light Holdings Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and 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 (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 HKICPA. 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
28 August 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

| | Notes | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
|---|-------|---------------------------------|---------------------------------|
| REVENUE | 5 | 157,568 | 265,647 |
| Cost of sales | | (125,354) | (230,683) |
| Gross profit | | 32,214 | 34,964 |
| Other income and gains | 5 | 8,901 | 5,590 |
| Selling and distribution expenses | | (13,325) | (13,126) |
| Administrative expenses | | (24,260) | (24,577) |
| Research and development expenses | | (22,942) | (28,778) |
| Other expenses | | (1,851) | (6,915) |
| Finance costs | 7 | (1,200) | (1,653) |
| LOSS BEFORE TAX | 6 | (22,463) | (34,495) |
| Income tax expense | 8 | – | (44) |
| LOSS FOR THE PERIOD | | (22,463) | (34,539) |
| Attributable to: | | | |
| Owners of the parent | | (20,540) | (34,348) |
| Non-controlling interests | | (1,923) | (191) |
| | | (22,463) | (34,539) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 10 | | |
| Basic | | HK(2.2) cents | HK(3.7) cents |
| Diluted | | HK(2.2) cents | HK(3.7) cents |

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

| | Note | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
|---|------|---------------------------------|---------------------------------|
| LOSS FOR THE PERIOD | | (22,463) | (34,539) |
| OTHER COMPREHENSIVE LOSS | | | |
| Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | (5,200) | 842 |
| Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods: | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income | 15 | (956) | (1,204) |
| OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX | | (6,156) | (362) |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | | (28,619) | (34,901) |
| Attributable to: | | | |
| Owners of the parent | | (26,696) | (34,710) |
| Non-controlling interests | | (1,923) | (191) |
| | | (28,619) | (34,901) |

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

| | Notes | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|--|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 45,391 | 59,531 |
| Right-of-use assets | | 39,444 | 47,559 |
| Intangible assets | 12 | 8,931 | 9,910 |
| Equity investments designated at fair value through other comprehensive income | 15 | 25,120 | 26,076 |
| Prepayments and other receivables | 17 | 4,148 | 4,379 |
| Total non-current assets | | 123,034 | 147,455 |
| CURRENT ASSETS | | | |
| Inventories | 13 | 134,682 | 134,410 |
| Trade receivables | 14 | 30,583 | 81,135 |
| Due from a related party | 26 | 368 | 398 |
| Prepayments and other receivables | 17 | 22,093 | 25,875 |
| Financial assets at fair value through profit or loss | 16 | 2,611 | 2,646 |
| Pledged deposits | 18 | 876 | 893 |
| Cash and cash equivalents | 18 | 116,162 | 106,899 |
| Total current assets | | 307,375 | 352,256 |
| CURRENT LIABILITIES | | | |
| Trade payables | 20 | 78,558 | 106,531 |
| Other payables | 21 | 67,187 | 62,819 |
| Interest-bearing bank borrowings | 19 | 7,044 | 16,678 |
| Tax payable | | 6,275 | 6,275 |
| Due to related parties | 26 | 3 | 46 |
| Total current liabilities | | 159,067 | 192,349 |
| NET CURRENT ASSETS | | 148,308 | 159,907 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 271,342 | 307,362 |

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

| | Notes | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|--|-------|--|--|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 271,342 | 307,362 |
| NON-CURRENT LIABILITIES | | | |
| Other long term payables | 22 | 25,438 | 33,142 |
| Deferred tax liabilities | | 871 | 871 |
| Total non-current liabilities | | 26,309 | 34,013 |
| Net assets | | 245,033 | 273,349 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 23 | 9,528 | 9,528 |
| Reserves | 24 | 231,443 | 257,836 |
| | | 240,971 | 267,364 |
| Non-controlling interests | | 4,062 | 5,985 |
| Total equity | | 245,033 | 273,349 |

Tang Wing Fong Terry
Director

Lu Yongbin
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

| | Attributable to owners of the parent | | | | | | | | | | |
|---|--|-----------------------------------|---|-----------------------------|----------------------------------|--------------------------|--------------------------------|--|-------------------|--------------------------------------|--------------------------|
| | Share capital HK\$'000 (note 23) | Share premium account HK\$'000 | Fair value reserve of financial assets at fair value through other comprehensive income HK\$'000 | Capital reserve HK\$'000 | Share option reserve HK\$'000 | Reserve fund HK\$'000 | Accumulated losses HK\$'000 | Exchange fluctuation reserve HK\$'000 | Total HK\$'000 | Non-controlling interest HK\$'000 | Total equity HK\$'000 |
| At 1 January 2020 (audited) | 9,528 | 752,853 | (4,963) | 148,807 | 23,715 | 37,050 | (663,744) | (35,882) | 267,364 | 5,985 | 273,349 |
| Loss for the period | - | - | - | - | - | - | (20,540) | - | (20,540) | (1,923) | (22,463) |
| Other comprehensive loss for the period: | | | | | | | | | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | - | - | (956) | - | - | - | - | - | (956) | - | (956) |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | - | (5,200) | (5,200) | - | (5,200) |
| Total comprehensive loss for the period | - | - | (956) | - | - | - | (20,540) | (5,200) | (26,696) | (1,923) | (28,619) |
| Equity-settled share option arrangements | - | - | - | - | 303 | - | - | - | 303 | - | 303 |
| At 30 June 2020 (unaudited) | 9,528 | 752,853 [#] | (5,919) [#] | 148,807 [#] | 24,018 [#] | 37,050 [#] | (684,284) [#] | (41,082) [#] | 240,971 | 4,062 | 245,033 |

Note:

[#] These reserve accounts comprise the consolidated reserves of HK\$231,443,000 in the interim condensed consolidated statement of financial position as at 30 June 2020 (31 December 2019: HK\$257,836,000).

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

Attributable to owners of the parent

| | Share capital HK\$'000 (note 23) | Shares held for Share Award Scheme HK\$'000 | Share premium account HK\$'000 | Fair value reserve of financial assets at fair value through other comprehensive income HK\$'000 | Capital reserve HK\$'000 | Share award reserve HK\$'000 | Share option reserve HK\$'000 | Reserve fund HK\$'000 | Accumulated losses HK\$'000 | Exchange fluctuation reserve HK\$'000 | Total HK\$'000 | Non- controlling interest HK\$'000 | Total equity HK\$'000 |
|--|--|--|---|---|--------------------------------|---------------------------------------|--|-----------------------------|-----------------------------------|--|-------------------|---|-----------------------------|
| At 1 January 2019 (audited) | 8,572 | (9,333) | 700,113 | 2,996 | 148,807 | 7,112 | 24,791 | 37,050 | (581,434) | (28,607) | 310,067 | - | 310,067 |
| Loss for the period | - | - | - | - | - | - | - | - | (34,348) | - | (34,348) | (191) | (34,539) |
| Other comprehensive income/(loss) for the period: | | | | | | | | | | | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | - | - | - | (1,204) | - | - | - | - | - | - | (1,204) | - | (1,204) |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | - | - | - | 842 | 842 | - | 842 |
| Total comprehensive loss for the period | - | - | - | (1,204) | - | - | - | - | (34,348) | 842 | (34,710) | (191) | (34,901) |
| Issue of shares | 956 | - | 51,627 | - | - | - | - | - | - | - | 52,583 | - | 52,583 |
| Share issue expense | - | - | (470) | - | - | - | - | - | - | - | (470) | - | (470) |
| Capital contribution by a non-controlling shareholder | - | - | - | - | - | - | - | - | - | - | - | 8,151 | 8,151 |
| Reclassification of vested awarded shares | - | 4,667 | (470) | - | - | (4,197) | - | - | - | - | - | - | - |
| Equity-settled share option arrangements | - | - | - | - | - | - | (2,651) | - | - | - | (2,651) | - | (2,651) |
| Equity-settled share award scheme arrangements | - | - | - | - | - | (2,915) | - | - | - | - | (2,915) | - | (2,915) |
| At 30 June 2019 (unaudited) | 9,528 | (4,666) | 750,800 | 1,792 | 148,807 | - | 22,140 | 37,050 | (615,782) | (27,765) | 321,904 | 7,960 | 329,864 |

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

| | Notes | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
|---|-------|---------------------------------|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | (22,463) | (34,495) |
| Adjustments for: | | | |
| Finance costs | 7 | 1,200 | 1,653 |
| Interest income | 5 | (403) | (1,048) |
| Write-down of inventories to net realisable value | 6 | 8,863 | 19,962 |
| Depreciation of property, plant and equipment | 6 | 11,972 | 14,344 |
| Depreciation of right-of-use assets | 6 | 7,244 | 8,491 |
| Amortisation of intangible assets | 6 | 630 | 629 |
| (Gain)/loss on disposal of items of property, plant and equipment | 6 | (1,139) | 1,560 |
| Gain on disposal of right-of-use assets | 6 | (36) | – |
| Fair value loss/(gain) of financial assets at fair value through profit or loss | | 35 | (59) |
| Impairment of trade receivables | 6 | 229 | 1,950 |
| Impairment of prepayments and other receivables | 6 | 1,685 | – |
| Equity-settled share option expense | | 303 | (2,651) |
| Equity-settled share award scheme expense | | – | (2,915) |
| | | 8,120 | 7,421 |
| (Increase)/decrease in inventories | | (7,389) | 2,461 |
| Decrease in trade receivables | | 50,323 | 66,113 |
| Decrease in amounts due from a related party | | 30 | 25 |
| Decrease in prepayments and other receivables | | 2,097 | 16,235 |
| Decrease in trade payables | | (27,973) | (68,642) |
| Decrease in amounts due to related parties | | (43) | (27) |
| Increase/(decrease) in other payables | | 4,301 | (5,533) |
| Cash generated from operations | | 29,466 | 18,053 |
| Tax paid | | – | (44) |
| Net cash flows from operating activities | | 29,466 | 18,009 |

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

| | Notes | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
|--|-------|---------------------------------|---------------------------------|
| Net cash flows from operating activities | | 29,466 | 18,009 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment and intangible assets | | (427) | (7,005) |
| Gross proceeds from disposals of items of property, plant and equipment | | 3,009 | 3,578 |
| Interest received | 5 | 403 | 1,048 |
| Net cash flows from/(used in) investing activities | | 2,985 | (2,379) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | 7,044 | 24,307 |
| Repayments of bank loans | | (16,678) | (29,717) |
| Interest paid | 7 | (185) | (384) |
| Principal portion of lease payments | | (7,718) | (8,636) |
| Share issue expenses | | – | (470) |
| Capital contribution from a non-controlling shareholder | | – | 8,151 |
| Net cash flows used in financing activities | | (17,537) | (6,749) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of period | | 106,899 | 95,132 |
| Effect of foreign exchange rate changes, net | | (5,651) | 1,894 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | 116,162 | 105,907 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 18 | 116,162 | 105,907 |
| Cash and cash equivalents as stated in the statement of financial position | 18 | 116,162 | 105,907 |
| Cash and cash equivalents as stated in the statement of cash flows | | 116,162 | 105,907 |

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

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 second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman KY1-1103, 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 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 information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

During the period, the Group suffered a loss of HK\$22,463,000, and had net current assets of HK\$148,308,000 as at 30 June 2020. The directors have carefully assessed the Group's liquidity position having taken into account the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting period. The directors believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, the interim financial report has been prepared on a going concern basis.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

| | |
|--|--|
| Amendments to HKFRS 3 | <i>Definition of a Business</i> |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i> |
| Amendment to HKFRS 16 | <i>Covid-19-Related Rent Concessions (early adopted)</i> |
| Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> |

The application of the above amendments to HKFRSs in the period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

4. Operating Segment Information

The Group focuses primarily on the manufacture and distribution of home surveillance cameras, digital imaging products and other electronic products during the period.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, does not contain profit or loss information of each product line and the Directors reviewed the financial results of the Group as a whole. Therefore, the operations of the Group constitute one single reportable segment. Accordingly, no operating segment is presented.

Geographical information

(a) Revenue from external customers

| | Six months ended 30 June | |
|---------------------------|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| United States of America | 90,565 | 144,667 |
| Mainland China | 24,039 | 29,456 |
| European Union | 29,500 | 81,371 |
| Other countries and areas | 13,464 | 10,153 |
| | 157,568 | 265,647 |

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

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

4. Operating Segment Information *(Continued)*

Geographical information *(Continued)*

(b) Non-current assets

| | 30 June 2020 HK\$'000 <i>(Unaudited)</i> | 31 December 2019 HK\$'000 <i>(Audited)</i> |
|-----------------|---|---|
| Mainland China | 74,720 | 93,983 |
| Hong Kong | 5,585 | 6,392 |
| Other countries | 17,609 | 21,004 |
| | 97,914 | 121,379 |

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

Information about major customers

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

| | Six months ended 30 June 2020 HK\$'000 <i>(Unaudited)</i> |
|------------|---|
| Customer A | 46,913 |

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

5. Revenue, Other Income and Gains

An analysis of revenue is as follows:

| | Six months ended 30 June | |
|---------------------------------------|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Revenue from contracts with customers | | |
| Type of goods or services | | |
| Sale of industrial products | 157,568 | 265,647 |
| Timing of revenue recognition | | |
| Goods transferred at a point in time | 157,568 | 265,647 |

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Other income and gains | | |
| Bank interest income | 403 | 1,048 |
| Government grants: | | |
| Related to income* | 6,257 | 4,148 |
| Gain on disposal of items of property, plant and equipment | 1,139 | – |
| Exchange gains | 571 | – |
| Others | 531 | 394 |
| | 8,901 | 5,590 |

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

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

6. Loss before Tax

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

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|---------------------------------|
| | | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Cost of inventories sold | | 116,491 | 210,721 |
| Depreciation of property, plant and equipment | 11 | 11,972 | 14,344 |
| Depreciation of right-of-use assets | | 7,244 | 8,491 |
| Amortisation of intangible assets* | 12 | 630 | 629 |
| Research and development expenses | | 22,942 | 28,778 |
| Short term and low value lease payments | | 3 | 59 |
| Employee benefit expense (excluding directors' and chief executive's remuneration): | | | |
| Wages and salaries | | 40,268 | 62,242 |
| Pension scheme contributions | | 2,289 | 6,174 |
| Equity-settled share option expense | | 194 | (2,874) |
| Equity-settled Share Award Scheme expense | | – | (2,915) |
| | | 42,751 | 62,627 |
| Write-down of inventories to net realisable value | | 8,863 | 19,962 |
| Impairment of trade receivables | | 229 | 1,950 |
| Impairment of prepayments and other receivables | | 1,685 | – |
| Exchange (gains)/losses, net | | (571) | 4,080 |
| (Gain)/loss on disposal of items of property, plant and equipment | | (1,139) | 1,560 |
| Gain on disposal of right-of-use assets | | (36) | – |
| Bank interest income | 5 | (403) | (1,048) |
| Government grants | 5 | (6,257) | (4,148) |

* The amortisation of software is included in "Research and development expenses" 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 Interim Condensed Consolidated Financial Statements

30 June 2020

7. Finance Costs

An analysis of finance costs is as follows:

| | Six months ended 30 June | |
|-------------------|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Interests on: | | |
| Bank loans | 185 | 384 |
| Lease liabilities | 1,015 | 1,269 |
| | 1,200 | 1,653 |

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% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: Nil) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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 for one (2019: one) of the Group's principal operating subsidiaries, Sky Light Electronics (Shenzhen) Limited, since it was recognised as High and New Technology Enterprises and entitled to a preferential tax rate of 15% during the reporting period.

The Group's subsidiaries in the United States of America are subject to the federal tax at a rate of 21% (2019: 21%), and also subject to the statutory applicable state corporate income tax at a rate of 8.84% (2019: 8.84%).

The Group's subsidiary in Vietnam is subject to corporate income tax at a rate of 20%.

| | Six months ended 30 June | |
|---------------------------------|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Current — Mainland China | — | 44 |
| Total tax charge for the period | — | 44 |

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

9. Dividends

The directors do not recommend the payment of any interim dividend during the period (six months ended 30 June 2019: Nil).

10. Loss Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 952,739,455 (six months ended 30 June 2019: 925,717,000) in issue during the period.

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 for the six months ended 30 June 2020 and 2019.

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Loss | | |
| Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculations | (20,540) | (34,348) |
| | Number of shares | |
| Shares | | |
| Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation | 952,739,455 | 925,717,000 |
| Basic loss per share | HK(2.2) cents | HK(3.7) cents |
| Diluted loss per share | HK(2.2) cents | HK(3.7) cents |

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

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 2020 (Unaudited) | | | | | | |
| At 31 December 2019 and at 1 January 2020: | | | | | | |
| Cost | 6,783 | 24,470 | 165,812 | 3,958 | 20,620 | 221,643 |
| Accumulated depreciation | (1,641) | (11,084) | (128,984) | (2,788) | (17,615) | (162,112) |
| Net carrying amount | 5,142 | 13,386 | 36,828 | 1,170 | 3,005 | 59,531 |
| At 1 January 2020, net of accumulated depreciation | 5,142 | 13,386 | 36,828 | 1,170 | 3,005 | 59,531 |
| Additions | – | – | 609 | – | 18 | 627 |
| Disposals | – | – | (1,824) | (32) | (14) | (1,870) |
| Depreciation provided during the period (note 6) | (144) | (1,835) | (9,229) | (251) | (513) | (11,972) |
| Exchange realignment | (65) | (220) | (599) | (12) | (29) | (925) |
| At 30 June 2020, net of accumulated depreciation | 4,933 | 11,331 | 25,785 | 875 | 2,467 | 45,391 |
| At 30 June 2020: | | | | | | |
| Cost | 6,694 | 24,034 | 155,354 | 2,884 | 20,381 | 209,347 |
| Accumulated depreciation | (1,761) | (12,703) | (129,569) | (2,009) | (17,914) | (163,956) |
| Net carrying amount | 4,933 | 11,331 | 25,785 | 875 | 2,467 | 45,391 |

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

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 2019 (Audited) | | | | | | |
| At 31 December 2018 and at 1 January 2019: | | | | | | |
| Cost | 6,885 | 12,983 | 181,991 | 3,587 | 33,130 | 238,576 |
| Accumulated depreciation | (1,370) | (7,871) | (119,359) | (2,703) | (30,532) | (161,835) |
| Net carrying amount | 5,515 | 5,112 | 62,632 | 884 | 2,598 | 76,741 |
| At 1 January 2019, net of accumulated depreciation | 5,515 | 5,112 | 62,632 | 884 | 2,598 | 76,741 |
| Additions | – | 11,752 | 3,758 | 661 | 2,648 | 18,819 |
| Disposals | – | – | (8,292) | (1) | (362) | (8,655) |
| Depreciation provided during the year | (296) | (3,238) | (20,364) | (359) | (1,865) | (26,122) |
| Exchange realignment | (77) | (240) | (906) | (15) | (14) | (1,252) |
| At 31 December 2019, net of accumulated depreciation | 5,142 | 13,386 | 36,828 | 1,170 | 3,005 | 59,531 |
| At 31 December 2019: | | | | | | |
| Cost | 6,783 | 24,470 | 165,812 | 3,958 | 20,620 | 221,643 |
| Accumulated depreciation | (1,641) | (11,084) | (128,984) | (2,788) | (17,615) | (162,112) |
| Net carrying amount | 5,142 | 13,386 | 36,828 | 1,170 | 3,005 | 59,531 |

None of the Group's banking facilities were secured by the Group's buildings as at 30 June 2020 (31 December 2019: Nil).

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying value of HK\$3,225,000 as at 30 June 2020 (31 December 2019: HK\$3,402,000) have not yet been issued by the relevant Mainland China authorities. The Group is in the process of obtaining these certificates.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

12. Intangible Assets

| | Trademarks HK\$'000 | Software HK\$'000 | Total HK\$'000 |
|---|------------------------|----------------------|-------------------|
| 30 June 2020 (Unaudited) | | | |
| Cost at 1 January 2020, net of accumulated amortisation | 238 | 9,672 | 9,910 |
| Additions | 31 | – | 31 |
| Amortisation provided during the period (note 6) | (53) | (577) | (630) |
| Exchange realignment | (1) | (379) | (380) |
| At 30 June 2020, net of accumulated amortisation | 215 | 8,716 | 8,931 |
| At 30 June 2020: | | | |
| Cost | 24,611 | 13,576 | 38,187 |
| Accumulated amortisation | (3,325) | (4,860) | (8,185) |
| Impairment | (21,071) | – | (21,071) |
| Net carrying amount | 215 | 8,716 | 8,931 |
| 31 December 2019 (Audited) | | | |
| Cost at 1 January 2019, net of accumulated amortisation | 207 | 10,588 | 10,795 |
| Additions | 53 | 554 | 607 |
| Amortisation provided during the year | (21) | (1,073) | (1,094) |
| Exchange realignment | (1) | (397) | (398) |
| At 31 December 2019, net of accumulated amortisation | 238 | 9,672 | 9,910 |
| At 31 December 2019: | | | |
| Cost | 24,582 | 14,612 | 39,194 |
| Accumulated amortisation | (3,273) | (4,940) | (8,213) |
| Impairment | (21,071) | – | (21,071) |
| Net carrying amount | 238 | 9,672 | 9,910 |

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

13. Inventories

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|---------------------|--|--|
| Raw materials | 120,610 | 120,820 |
| Work in progress | 64,221 | 55,725 |
| Finished goods | 144,613 | 162,787 |
| | 329,444 | 339,332 |
| Inventory provision | (194,762) | (204,922) |
| | 134,682 | 134,410 |

The movements of inventory provision are as follows:

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|---|--|--|
| Balance at beginning of the period/year | 204,922 | 164,613 |
| Provision for the period/year | 8,863 | 61,145 |
| Transfer/written off | (17,277) | (18,411) |
| Exchange realignment | (1,746) | (2,425) |
| Balance at end of the period/year | 194,762 | 204,922 |

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

14. Trade Receivables

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|-------------------|--|--|
| Trade receivables | 33,976 | 84,364 |
| Impairment | (3,393) | (3,229) |
| | 30,583 | 81,135 |

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

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|----------------|--|--|
| Within 1 month | 17,368 | 76,982 |
| 1 to 2 months | 9,299 | 3,723 |
| 2 to 3 months | 1,897 | 300 |
| Over 3 months | 2,019 | 130 |
| | 30,583 | 81,135 |

15. Equity Investments Designated at Fair Value through Other Comprehensive Income

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|--|--|--|
| Non-current assets | | |
| Unlisted equity investments, at fair value | 25,120 | 26,076 |

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2020

16. Financial Assets at Fair Value through Profit or Loss

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|--|--|--|
| Other unlisted investment, at fair value | 2,611 | 2,646 |

The above unlisted investment at 30 June 2020 was a wealth management product issued by a bank in Hong Kong. It was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

Certain of the Group's banking facilities were secured by the wealth management product with a carrying value of HK\$2,611,000 as at 30 June 2020 (31 December 2019: HK\$2,646,000).

17. Prepayments and Other Receivables

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|--------------------------------|--|--|
| Non-current assets | | |
| Non-current prepayments | 4,148 | 4,379 |
| Current assets | | |
| Prepayments | 4,518 | 5,453 |
| Deposits and other receivables | 17,575 | 20,422 |
| | 22,093 | 25,875 |

Notes to Interim Condensed Consolidated Financial Statements

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18. Cash and Cash Equivalents and Pledged Deposits

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|---------------------------------------|--|--|
| Cash and bank balances | 117,038 | 107,792 |
| Less: Pledged deposits | 876 | 893 |
| Cash and cash equivalents | 116,162 | 106,899 |
| Cash and bank balances denominated in | | |
| — Renminbi ("RMB") | 38,343 | 53,947 |
| — United States dollars ("US\$") | 72,440 | 50,390 |
| — HK\$ | 3,891 | 2,094 |
| — Other currencies | 1,488 | 468 |
| Cash and cash equivalents | 116,162 | 106,899 |

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 and pledged deposits are deposited with creditworthy banks with no recent history of default.

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19. Interest-Bearing Bank Borrowings

| Current | 30 June 2020 (Unaudited) | | | 31 December 2019 (Audited) | | |
|-----------------------|-----------------------------|----------|----------|---|---|----------|
| | Effective interest rate (%) | Maturity | HK\$'000 | Effective interest rate (%) | Maturity | HK\$'000 |
| Bank loans — secured | 3.2–3.3 | 2020 | 7,044 | 3.1–4.0 | 2020 | 16,678 |
| | | | | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) | |
| Analysed into: | | | | | | |
| Within one year | | | | 7,044 | 16,678 | |

The Group's banking facilities amounting to HK\$23,000,000 as at 30 June 2020 (31 December 2019: HK\$23,000,000), of which HK\$7,044,000 (31 December 2019: HK\$16,678,000) had been utilised as at the end of the reporting period.

The Group's banking facility amounting to HK\$23,000,000 is secured by an insurance and a wealth management product purchased from the bank (Note 16).

All borrowings are denominated in United States dollars.

20. Trade Payables

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|----------------|---|---|
| Trade payables | 78,558 | 106,531 |

Notes to Interim Condensed Consolidated Financial Statements

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20. Trade Payables *(Continued)*

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

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|----------------|--|--|
| Within 1 month | 48,473 | 87,367 |
| 1 to 2 months | 6,677 | 7,296 |
| 2 to 3 months | 7,267 | 4,598 |
| Over 3 months | 16,141 | 7,270 |
| | 78,558 | 106,531 |

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 120 days.

21. Other Payables

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|-----------------------------|--|--|
| Contract liabilities | 39,744 | 29,647 |
| Other payables | 6,215 | 9,257 |
| Salary and welfare payables | 7,664 | 10,419 |
| Lease liabilities | 13,564 | 13,496 |
| | 67,187 | 62,819 |

22. Other Long Term Payables

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|-------------------|--|--|
| Lease liabilities | 25,438 | 33,142 |

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23. SHARE CAPITAL

Shares

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|---|--|--|
| Issued and fully paid 952,739,455 (31 December 2019: 952,739,455) ordinary shares | 9,528 | 9,528 |

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

| | Number of shares in issue | Share Capital HK\$'000 |
|---|---------------------------------|------------------------------|
| At 1 January 2019 (Audited) | 857,134,000 | 8,572 |
| Issue of new shares under loan capitalization agreement (a) | 95,605,455 | 956 |
| | 952,739,455 | 9,528 |
| At 31 December 2019 and 30 June 2020 (Unaudited) | 952,739,455 | 9,528 |

- (a) On 15 January 2019, the Group and its director Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the Company agreed to allot and issue 95,605,455 new shares at the issue price of HK\$0.55 per share for the capitalisation of the loans, before share issue expense of HK\$470,000, in the total principal amount of HK\$52,583,000 provided by Tang Wing Fong Terry. For details, please refer to the announcements of the Group dated 15 January 2019.

24. 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 28 to 29 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.

Notes to Interim Condensed Consolidated Financial Statements

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25. Commitments

the Group had the following capital commitments at the end of the reporting period:

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|--|--|--|
| Contracted, but not provided for: Plant and machinery | 176 | 1,089 |

26. Related Party Transactions

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Rental expenses: | | |
| XinYongYi Technology Park (Heyuan) Limited ("XinYongYi") (i) | 1,200 | 1,591 |

(i) 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\$200,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$265,000). The rental was made according to negotiation with the counterparty.

(2) Compensation of key management personnel of the Group

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Short term employee benefits | 1,356 | 1,679 |
| Post-employment benefits | 37 | 56 |
| Equity-settled share option and Share Award Scheme expenses | 99 | 244 |
| Total compensation paid to key management personnel | 1,492 | 1,979 |

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26. Related Party Transactions *(Continued)* **(3) Outstanding balances with related parties**

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|--|--|--|
| Due from a related party: XinYongYi | 368 | 398 |
| Due to related parties: Shenzhen Yongyida Electronics Co.,Ltd ("Yongyida") XinYongYi | – 3 | 39 7 |
| | 3 | 46 |

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.

27. Fair Value and Fair Value Hierarchy of Financial Instruments

At 30 June 2020 and 31 December 2019, the carrying amounts and fair values of the Group's financial assets and financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in other receivables and other assets, amounts due from/to related parties, trade payables, financial liabilities included in other payables, and interest-bearing bank borrowings approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Notes to Interim Condensed Consolidated Financial Statements

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27. Fair Value and Fair Value Hierarchy of Financial Instruments *(Continued)*

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about expected future cash flows, credit risk, volatility and discount rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in an unlisted investment, classified as financial assets at fair value through profit and loss, which represents a wealth management product issued by a bank in Hong Kong. The Group has estimated the fair value of the unlisted investment based on the market price.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2020

| | Fair value measurement using | | |
|--|--|--|----------------------------------|
| | Quoted prices in active markets (Level 1) HK\$'000 (Unaudited) | Significant unobservable inputs (Level 3) HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
| Financial assets at fair value through profit or loss | 2,611 | – | 2,611 |
| Equity investments designated at fair value through other comprehensive income | – | 25,120 | 25,120 |
| | 2,611 | 25,120 | 27,731 |

As at 31 December 2019

| | Fair value measurement using | | |
|--|--|--|--------------------------------|
| | Quoted prices in active markets (Level 1) HK\$'000 (Audited) | Significant unobservable inputs (Level 3) HK\$'000 (Audited) | Total HK\$'000 (Audited) |
| Financial assets at fair value through profit or loss | 2,646 | – | 2,646 |
| Equity investments designated at fair value through other comprehensive income | – | 26,076 | 26,076 |
| | 2,646 | 26,076 | 28,722 |

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27. Fair Value and Fair Value Hierarchy of Financial Instruments *(Continued)*

The Group did not have any financial liabilities measured at fair value as at 30 June 2020 and 31 December 2019.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (six months ended 30 June 2019: Nil).

28. Events After The Reporting Period

The novel coronavirus ("COVID-19") broke out at the beginning of the year. As COVID-19 caused the severe and unexpected disruptions throughout the world, certain business operations of the Group's, in particular, the supply chain and customer orders have been impacted. Considering it may continue to affect the business operations of the Group, the board of directors will continuously evaluate further effect that could be caused by COVID-19 on the business operation and financial position of the Group and make timely disclosure of any important matters.

29. Approval of the Condensed Consolidated Financial Information

These unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 was approved and authorised for issue by the board of directors of the Company on 28 August 2020.