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SKY LIGHT HOLDINGS LIMITED

天彩控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3882)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS			
	Six months ended 30 June		
	2016	2015	Change
	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	
REVENUE	559,681	1,299,378	–56.9%
GROSS PROFIT MARGIN (%)	23.6%	18.9%	4.7 p.p.t.
PROFIT FOR THE PERIOD	3,826	96,383	–96.0%
ADJUSTED BY:			
LISTING EXPENSE	–	23,081	–100.0%
SHARE OPTION EXPENSE	5,981	1,394	329.1%
PROFIT FOR THE PERIOD BEFORE LISTING EXPENSE	3,826	119,464	–96.8%
PROFIT FOR THE PERIOD BEFORE LISTING EXPENSE AND SHARE OPTION EXPENSE	9,807	120,858	–91.9%
EARNINGS PER ORDINARY SHARE FOR THE PERIOD			
— BASIC AND DILUTED	HK\$0.00	HK\$0.16	–97.0%
INTERIM DIVIDENDS	–	48,019	–100.0%
	30 June 2016	31 December 2015	Change
	HK\$'000	HK\$'000	
	(Unaudited)	(Audited)	
CASH AND BANK BALANCES (Note)	538,358	673,500	–20.1%
TOTAL EQUITY	953,682	1,010,786	–5.6%

Note:

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

The board (the “Board”) of directors (“Directors”) of Sky Light Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 (“2016 Interim”), together with the comparative figures for the six months ended 30 June 2015 (“2015 Interim”). These results have been reviewed by Ernst & Young, the external auditors of the Company, and the Company’s audit committee (the “Audit Committee”).

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

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
REVENUE	5	559,681	1,299,378
Cost of sales		<u>(427,390)</u>	<u>(1,054,378)</u>
Gross profit		<u>132,291</u>	<u>245,000</u>
Other income and gains	5	8,134	15,184
Selling and distribution expenses		(16,865)	(10,118)
Administrative expenses		(52,155)	(78,537)
Research and development costs		(59,269)	(49,335)
Other expenses		(3,459)	(1,389)
Finance costs	7	<u>(933)</u>	<u>(2,040)</u>
PROFIT BEFORE TAX	6	7,744	118,765
Income tax expense	8	<u>(3,918)</u>	<u>(22,382)</u>
PROFIT FOR THE PERIOD		<u><u>3,826</u></u>	<u><u>96,383</u></u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments		–	(50)
Exchange differences on translation of foreign operations		<u>(8,488)</u>	<u>202</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>(8,488)</u>	<u>152</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>(4,662)</u></u>	<u><u>96,535</u></u>

		Six months ended 30 June	
		2016	2015
<i>Note</i>		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit attributable to:			
	Owners of the parent	3,826	96,383
	Non-controlling interests	<u>—</u>	<u>—</u>
		3,826	96,383
		<u>3,826</u>	<u>96,383</u>
Total comprehensive income attributable to:			
	Owners of the parent	(4,662)	96,535
	Non-controlling interests	<u>—</u>	<u>—</u>
		(4,662)	96,535
		<u>(4,662)</u>	<u>96,535</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	Basic (expressed in HK\$ per share)	<i>10</i> <u>HK\$0.00</u>	<u>HK\$0.16</u>
	Diluted (expressed in HK\$ per share)	<i>10</i> <u>HK\$0.00</u>	<u>HK\$0.16</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2016

		30 June 2016	31 December 2015
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		135,186	141,064
Prepaid land lease payments		2,848	2,895
Intangible assets		11,078	11,529
Available-for-sale investments		15,548	7,750
Non-current prepayments		45,056	13,881
Deferred tax assets		4,876	5,354
Total non-current assets		214,592	182,473
CURRENT ASSETS			
Inventories	<i>11</i>	199,156	286,119
Trade receivables	<i>12</i>	163,713	245,466
Bills receivable		5,859	10,551
Available-for-sale investments		10,590	2,831
Due from a related party		1,237	1,682
Prepayments, deposits and other receivables		76,294	98,520
Pledged deposits		8,152	40,679
Cash and cash equivalents		519,616	629,990
Total current assets		984,617	1,315,838

		30 June 2016	31 December 2015
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	39,276	212,009
Trade payables	14	132,859	164,064
Bills payable		559	487
Other payables and accruals		65,516	99,690
Derivative financial instruments		–	3,693
Tax payable		6,130	6,061
Due to related parties		316	650
Total current liabilities		244,656	486,654
NET CURRENT ASSETS		739,961	829,184
TOTAL ASSETS LESS CURRENT LIABILITIES		954,553	1,011,657
NON-CURRENT LIABILITIES			
Deferred tax liabilities		871	871
Total non-current liabilities		871	871
Net assets		953,682	1,010,786
EQUITY			
Equity attributable to owners of the Parent			
Share capital		8,003	8,003
Reserves		945,679	1,002,783
Total equity		953,682	1,010,786

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 18 December 2013. The Company's registered office address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. During the period, the Group was principally engaged in:

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

In the opinion of the Directors, as at the date of this announcement, the immediate holding company and ultimate holding company of the Company is Fortune Six Investment Ltd., a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of the new or revised standards, interpretation and amendments as of 1 January 2016, noted below:

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012–2014 Cycle</i>	<i>Amendments to a number of HKFRSs</i>

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

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

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
United States of America	489,066	1,177,168
Mainland China	43,654	58,791
European Union	20,097	29,219
Other overseas countries	6,864	34,200
	<u>559,681</u>	<u>1,299,378</u>

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

(b) Non-current assets

	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Mainland China	149,805	163,662
Hong Kong	59,911	13,457
	<u>209,716</u>	<u>177,119</u>

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

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	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	145,712	951,403
Customer B	111,183	112,557
Customer C	97,164	–
Customer D	57,488	–

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	559,681	1,299,378
Other income and gains		
Bank interest income	3,129	780
Government grants:		
Related to income*	2,518	529
Fair value gains, net:		
Derivative instruments — transactions not qualifying as hedges	–	2,787
Investment income from available-for-sale investments	–	104
Exchange gains	2,087	10,466
Others	400	518
	8,134	15,184

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

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	428,084	1,046,434
Depreciation	17,457	12,708
Amortisation of prepaid land lease payments	47	48
Amortisation of intangible assets	505	327
Research and development costs	59,269	49,335
Minimum lease payments under operating leases	8,642	7,161
Write-down/(reversal of write-down) of inventories to net realisable value	(694)	7,944
Fair value (gains)/losses, net:		
Derivative instruments — transactions not qualifying as hedges	765	(2,787)
Exchange gains, net	(2,087)	(10,466)
Loss on disposal of items of property, plant and equipment	890	1,103

7. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loans	933	2,040

8. INCOME TAX EXPENSE

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

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

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

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax at a rate of 25% on the taxable income. Preferential tax treatments are available to two (2015: two) of the Group's principal operating subsidiaries, Sky Light Electronics (Shenzhen) Limited and Sky Light Technology (Heyuan) Limited, since they were recognised as High and New Technology Enterprises and they are entitled to a preferential tax rate of 15% for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Group:		
Charge for the period		
Current — Mainland China	436	9,434
Current — Hong Kong	3,004	10,350
Deferred	478	2,598
Total tax charge for the period	3,918	22,382

9. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Declared 2015 final — HK7.3 cents (2014: Nil) per ordinary share	58,423	—
Proposed interim — Nil (2015: HK6 cents) per ordinary share	—	48,019

On 26 May 2016, a final dividend of HK7.3 cents per ordinary share for the year ended 31 December 2015, absorbing an amount of approximately HK\$58,423,000, was approved by way of poll and by the then shareholders of the Company. The amount was paid in June 2016.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share for the period is based on the consolidated profit attributable to ordinary equity holders of the parent for the period of HK\$3,826,000 and the weighted average number of 800,319,000 ordinary shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2015 is based on the consolidated profit attributable to the ordinary equity holders of the parent for the six months ended 30 June 2015 of HK\$96,383,000, and on the basis that 600,000,000 ordinary shares, being the number of shares immediately prior to the issuance of new shares on 2 July 2015, were in issue during the six months ended 30 June 2015, and assuming the capitalisation issue had been completed on 1 January 2015.

The calculation of the diluted earnings per share for the period is based on the profit attributable to ordinary equity holders of the parent of HK\$3,826,000 (six months ended 30 June 2015: HK\$96,383,000). The weighted average number of ordinary shares used in the calculation is the 800,319,000 (six months ended 30 June 2015: 600,000,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 4,400,371 (six months ended 30 June 2015: 8,472,874) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to owners of the parent, used in the basic and diluted earnings per share calculations (HK\$'000)	3,826	96,383
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	800,319,000	600,000,000
Effect of dilution — weighted average number of ordinary shares: share option	4,400,371	8,472,874
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	804,719,371	608,472,874
Basic earnings per share (HK\$)	0.00	0.16
Diluted earnings per share (HK\$)	0.00	0.16

11. INVENTORIES

	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Raw materials	86,142	142,953
Work in progress	71,747	70,463
Finished goods	41,267	72,703
	199,156	286,119

12. TRADE RECEIVABLES

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

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

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

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within 30 days	75,949	115,833
31 to 60 days	55,294	124,836
61 to 90 days	4,918	3,327
Over 90 days	27,552	1,470
	<u>163,713</u>	<u>245,466</u>

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
Current	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Bank loans — secured	1.4–2.2	2016	<u>39,276</u>	0.8–2.1	2016	<u>212,009</u>

30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
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Analysed into:

Bank loans:

Within one year

<u>39,276</u>	<u>212,009</u>
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The Group's banking facilities amounting to HK\$360,259,000 at 30 June 2016 (31 December 2015: HK\$443,597,000), of which HK\$39,276,000 (31 December 2015: HK\$212,009,000) had been utilised as at the end of the reporting period, are secured by the pledge of certain of the Group's time deposits.

Certain of the Group's bank loans are secured by:

- (i) the pledge of certain of the Group's time deposits amounting to HK\$8,152,000 at 30 June 2016 (31 December 2015: HK\$40,679,000);
- (ii) mortgages over the Group's buildings, which had aggregate carrying values amounting to HK\$1,994,000 at 31 December 2015; and
- (iii) mortgages over the Group's prepaid land lease payments, which had aggregate carrying values amounting to HK\$2,990,000 at 31 December 2015.

14. TRADE PAYABLES

An ageing analysis of the trade payables as at 30 June 2016, based on the invoice date, is as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within 30 days	103,106	75,863
31 to 60 days	22,109	65,121
61 to 90 days	3,782	16,505
Over 90 days	3,862	6,575
	<u>132,859</u>	<u>164,064</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

15. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within one year	15,327	17,320
In the second to fifth years, inclusive	27,340	35,192
	<u>42,667</u>	<u>52,512</u>

16. COMMITMENTS

In addition to the operating lease commitments detailed in note 15 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Contracted, but not provided for:		
Unpaid investment amount	67,259	–
Plant and machinery	3,568	6,976
	<u>70,827</u>	<u>6,976</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in sales, developing and manufacturing home imaging products, virtual reality (“VR”) products, action cameras and related accessories and other digital imaging products such as car camcorders, police cameras and other imaging products for various purposes. In particular, the Group is one of the leading digital imaging device and solutions provider for the home imaging industry. Leveraging on our substantial experience spanning across a diverse range of digital imaging products, we differentiate ourselves from other manufacturers by offering design-driven joint design manufacturing (“JDM”) and original design manufacturing (“ODM”) solutions to customers. We have successfully launched 360-degree cameras in July 2016 and expect VR products, including VR cameras, 360-degree cameras and head-mounted displays, will be a major source of our revenue in the coming years.

Since our establishment, our core operations have mainly focused on imaging products. We have successfully shifted from our positioning as a traditional imaging products manufacturer to an action camera vendor, and further introduced home imaging products since 2014. We have begun in-house development of VR products and we have also invested in certain VR-related companies and are in the process of acquiring branding companies along our value chain during 2016 Interim. Thus, in addition to the JDM and ODM business, we are seeking to become a brand-driven, one-stop, vertically integrated smart imaging devices and solutions provider to add value for shareholders of the Company (“Shareholders”).

For 2016 Interim, the Group’s turnover significantly declined by approximately HK\$739.7 million to approximately HK\$559.7 million from approximately HK\$1,299.4 million for the same period in 2015, which was predominately caused by the significant reduction in the shipment volume of action cameras to the top customer of the Group for the year ended 31 December 2015 (the “2015 Top Customer”) for 2016 Interim as compared to the shipment volume for 2015 Interim, as a result of the discontinuance of the production of HERO-line action cameras by the 2015 Top Customer.

The revenue from the action cameras and accessories business during 2016 Interim was mainly derived from the sales of accessories to the 2015 Top Customer. The Group continues to provide accessories to the 2015 Top Customer after its discontinuance of HERO-line action cameras.

Home imaging products have become our major revenue source following the significant decline in our revenue derived from action cameras and accessories, which contributed approximately 49.1% of our total revenue for 2016 Interim. Revenue of home imaging products soared from approximately HK\$183.3 million for 2015 Interim to approximately HK\$274.6 million for 2016 Interim and the increase was mainly attributable to the Group’s strategy in focusing on high-end products designed for clients in the United States (“U.S.”).

The digital imaging business recorded a moderate increase in sales, mainly owing to the new shipment of police cameras to a leading police equipment provider in the U.S. since December 2015.

Prospects

We perceive the year of 2016 to be a year of VR. The immersive, 360-degree digital experience is helpful for and can be widely applied in the industries, like E-commerce, videogames, live events, video entertainment, healthcare, real estate, education, engineering, etc. to simulate different environments. It is expected that the VR business will be one of the next multitrillion-dollar businesses.

The Group is pioneered in the VR industry and is proactive in seeking new projects and business opportunities, although the VR markets remain at an early stage of development. The Group has already successfully shipped 360-degree cameras to a leading China VR camera brand in July 2016. The Group has also made investments in and will cooperate with certain start-up companies which have synergy with our business along our value chain.

For home imaging products, the demands for more cloud applications, better storage and connectivity have contributed to the remarkable market growth. More users are buying smart home cameras for home surveillance, as well as child care and elder care. With the demand for higher definition and stronger interaction with smart devices, smart home imaging products are expected to enjoy strong growth in the near future. We believe that we are pursuing the right direction for future development and will continue to develop more creative home imaging products for a variety of uses to suit different customers.

With regards to the action camera business, we expect the shipment to the 2015 Top Customer in 2016 will decrease significantly as the 2015 Top Customer has announced its decision to discontinue the production of the HERO-line action cameras. However, based on the ongoing business cooperation with the 2015 Top Customer for the sales of accessories during 2016 Interim, we expect that the 2015 Top Customer will continue to place stable orders for accessories in 2016.

While we have historically generated the majority of our revenue from the sales of action cameras and accessories, we expect our home imaging and new imaging products (especially the VR products) will contribute to a larger share of the Group's revenue in the next few years. Capitalizing on our well-defined strategy and solid business foundation, the management has confidence in the Group's future prospects and that it will continue to create value for our Shareholders.

As disclosed in the announcement of the Company dated 20 June 2016, the Company entered into certain agreements in respect of the restructuring and support of the iON Group, the purpose of which is to rescue the iON Group and obtain control by acquiring the entire reorganised equity of the iON Group after its restructuring. The iON Group is a US-based camera provider and is currently one of the customers of the Group. The Directors are of the view that the rescue of the iON Group will be a suitable opportunity for the Group to broaden its range of investments, diversify its revenue sources, leveraging on the iON Group's product range, brands, intellectual property licenses held and customer base, and will benefit the Company and the Shareholders as a whole. Further agreements may be entered into by the Group for the rescue of the iON Group. The Company will update its Shareholders by way of announcement(s) for any further update(s) on the proposed acquisition of the iON Group as and when appropriate.

We aim to maintain our strong market position and expand our product portfolio. Thus, we continue to seek to gain market share and deliver high-quality products and solutions to our customers by pursuing the following strategies:

- Create and promote our own brands for new products, especially for VR products
- Selectively pursue merger and acquisition opportunities, as well as investment opportunities, along the value chain
- Offer our customers the video cloud platform on top of hardware products to enable greater applications creativity and a better user experience
- Continue to develop innovative products by further investing in product planning and research and development capabilities
- Strengthen our customer relationships and further expand our customer base

Financial review

Turnover

Our products mainly consist of the following three categories: (i) home imaging, (ii) action cameras and accessories, and (iii) digital imaging. We generate revenue predominantly from sales of these products, as well as from sales of other electronic products such as smart wearable products and tooling fees associated with products that we manufacture for customers. While we have historically generated the majority of our revenue from the sales of action cameras and accessories, we expect the contribution from home imaging products and new imaging products (especially for VR products) will increase significantly in the next few years. The following tables set out the breakdown of our revenue from sales of major products by product type for the periods indicated:

	Six months ended 30 June				
	2016	% of total	2015	% of total	Revenue
	HK\$'000	revenue	HK\$'000	revenue	change
	(Unaudited)		(Unaudited)		
Major products					
Home imaging	274,627	49.1%	183,308	14.1%	49.8%
Digital imaging	111,466	19.9%	89,829	6.9%	24.1%
Action cameras and accessories	105,090	18.8%	992,733	76.4%	-89.4%
Others	68,498	12.2%	33,508	2.6%	104.4%
Total	<u>559,681</u>	<u>100.0%</u>	<u>1,299,378</u>	<u>100.0%</u>	<u>-56.9%</u>

For 2016 Interim, the Group has recorded a turnover of approximately HK\$559.7 million (2015 Interim: approximately HK\$1,299.4 million), representing a significant decrease of approximately 56.9% as compared to 2015 Interim. This decrease was mainly attributable to the significant reduction in the shipment units of action cameras to the 2015 Top Customer during 2016 Interim.

We sell our products mainly to customers in the U.S. and expect the U.S. market will continue to account for majority of our revenue in the foreseeable future. The significant decrease in the sales in the U.S. was in line with the decrease in the sales to the 2015 Top Customer, which is a U.S. based client. The significant decrease in the sales in the other overseas countries was attributable to the decrease in the sales of traditional cameras which gradually phase out in the market. The following table sets out the breakdown of revenue by location of our customers for the periods indicated:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
United States	489,066	1,177,168
Mainland China	43,654	58,791
European Union	20,097	29,219
Other overseas countries	6,864	34,200
	559,681	1,299,378

Cost of sales

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

For 2016 Interim, cost of sales of the Group amounted to approximately HK\$427.4 million (2015 Interim: approximately HK\$1,054.4 million), representing a decrease of approximately 59.5% as compared to 2015 Interim, and amounted to approximately 76.4% (2015 Interim: approximately 81.1%) of our turnover during the period. This decrease was mainly attributable to a substantial decrease in consumption of the raw materials, components and parts as we shipped much less action cameras and we have applied strict cost control during 2016 Interim.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately HK\$132.3 million for 2016 Interim (2015 Interim: approximately HK\$245.0 million), representing a decrease of approximately 46.0% as compared to 2015 Interim. The gross profit margin increased from approximately 18.9% for 2015 Interim to approximately 23.6% for 2016 Interim. The increase was mainly due to the depreciation of Renminbi ("RMB") against U.S. dollar ("US\$"), which lowered our production cost as more than 40% of our inventory cost was settled by RMB and majority of our revenue were derived from the U.S., and denominated in the US\$.

Other income and gains and other expenses

Other income and gains and other expenses include mainly (i) bank interest income; (ii) government grants, which mainly consist of rewards and subsidies for research activities granted by the local government with no unfulfilled conditions or contingencies; (iii) fair value gains or losses from derivative financial instruments, which relates to forward currency contracts that we used to manage our foreign currency risk; and (iv) exchange gains or loss arising mainly from fluctuation of RMB against US\$ between the invoice and settlement dates of our sales and purchases, and from translation of our US\$-denominated trade payables and receivables.

For 2016 Interim, other income and gains of the Group decreased significantly by approximately 46.4% to HK\$7.1 million as compared to 2015 Interim, which was primarily attributable to a decrease of HK\$8.4 million in exchange gains. The decrease in exchange gains was in line with the decrease in the settlement of receivables and payables dominated in US\$, which resulted from the significant decrease in the Group's sales and purchases.

Selling and distribution expenses

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

For 2016 Interim, selling and distribution expenses increased by approximately 66.7% to HK\$16.9 million from HK\$10.1 million for 2015 Interim. This increase was mainly attributable to the launch of our new sales branch in the U.S..

Administrative expenses

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

For 2016 Interim, administrative expenses decreased by 33.6% to approximately HK\$52.2 million (2015 Interim: HK\$78.5 million). The decrease was primarily due to the absence of an one-off expenses for approximately HK\$23.1 million in fees incurred in connection with the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 July 2015 (the "Listing") which were recognised in 2015 Interim.

Research and development costs

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

For 2016 Interim, we recorded research and development costs of approximately HK\$59.3 million, which increased by approximately 20.1% from approximately HK\$49.3 million for 2015 Interim. This increase was mainly attributable to an increase in salaries and benefits for the recruitment of more engineers to support our increased efforts to develop VR products, video cloud, new home imaging models and other new products.

Finance costs

For 2016 Interim, the finance costs of the Group were approximately HK\$0.9 million (2015 Interim: HK\$2.0 million), representing a decrease of approximately 54.3% as compared to 2015 Interim. This decrease was attributable to a decrease in average borrowing of US\$ amounts from certain banks in Hong Kong for settlement of decreased trade payments.

Income tax expense

For 2016 Interim, the income tax expense of the Group were approximately HK\$3.9 million (2015 Interim: approximately HK\$22.4 million), representing a significantly decrease of approximately HK\$18.5 million as compared to 2015 Interim. Effective income tax rate increased from 18.8% for 2015 Interim to 50.6% for 2016 Interim, which was primarily attributable to income tax expense recognised for subsidiaries with taxable profit while income tax credit was not claimed for certain subsidiaries with no taxable profit during the relevant period based on the management's best estimate.

Net profit

As a result of the foregoing, net profit decreased by approximately 96.0% to approximately HK\$3.8 million for 2016 Interim from approximately HK\$96.4 million for 2015 Interim.

Net profit margin decreased to approximately 0.7% for 2016 Interim, compared to approximately 7.4% in 2015 Interim, primarily as a result of our significant drop of revenue and gross profit, which was partially offset by slight decrease in overall expenses for the 2016 Interim.

Liquidity and capital resources

Our principal cash requirements are to pay for working capital needs, capital expenditures for the expansion and upgrade of production facilities, merger and acquisitions along our value chain, and investments in start-up companies which have synergy with the Group. We meet these cash requirements by relying on net cash flows generated from operating activities and listing proceeds as our principal source of funding. The following table sets out our selected consolidated cash flow for the periods indicated.

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	167,152	51,698
Net cash flows used in investing activities	(40,041)	(21,282)
Net cash flows used in financing activities	(232,089)	(102,074)
Net decrease in cash and cash equivalents	(104,978)	(71,658)
Cash and cash equivalents at beginning of period	629,990	167,167
Effect of foreign exchange rate, net	(5,396)	–
Cash and cash equivalents at end of period	519,616	95,509

Net cash from operating activities for 2016 Interim was approximately HK\$167.2 million, which primarily reflected the collection of trade receivables from the 2015 Top Customer and collection of proceeds from sales of raw materials for cancelled orders of the 2015 Top Customer during 2016 Interim. While at the same time, no more sales, which were generally on credit, of action cameras were made to the 2015 Top Customer during 2016 Interim.

Net cash used in investing activities for 2016 Interim was approximately HK\$40.0 million. This consisted mainly of (i) payment of approximately HK\$9.0 million for purchases of items of property, plant and equipment primarily for the upgrade of certain production equipment to support the production of high-quality products; (ii) payment of approximately HK\$47.5 million for the proposed acquisition of the iON Group and our U.S. sales branch; (iii) investment of approximately HK\$12.3 million in unlisted start-up companies; and (iv) release of pledged deposits of approximately HK\$32.5 million in the banks in connection with issuing less letter of credit from the banks. The increase in non-current prepayments was primarily due to the payment of deposits to the proposed acquisition the iON Group.

Net cash used in financing activities for 2016 Interim was approximately HK\$232.1 million, which was caused by (i) net repayment of bank borrowings of approximately HK\$172.7 million, resulting from less interest-bearing bank borrowings were used to settle trade payables; and (ii) payment of approximately HK\$58.4 million to settle the 2015 final dividends.

The Group's cash and cash equivalents were dominated in US\$, HK\$ and RMB as at 30 June 2016.

Borrowing and the pledge of assets

The aggregate amount of our banking facilities as at 31 December 2015 and 30 June 2016 was approximately HK\$443.6 million and approximately HK\$360.3 million, respectively. As at the same dates, total bank loans in the amounts of approximately HK\$212.0 million and approximately HK\$39.3 million were outstanding, respectively, which are repayable within one year. We utilised less interest-bearing bank borrowings to settle trade payables due to the shrink of purchase scale.

The Group's bank and other borrowings are all denominated in US\$ and bear fixed interest rates. During 2016 Interim, the annual interest rate of bank borrowings ranged from 1.4% to 2.2% (2015: 0.8% to 2.1%).

Further details of the Group's bank borrowings are set out in note 13 to the interim condensed financial statements.

Certain of our interest-bearing bank and other borrowings as at 31 December 2015 and 30 June 2016 were secured by (i) the pledge of certain of our time deposits in the amounts of HK\$40.7 million and approximately HK\$8.2 million, respectively, (ii) mortgages over our buildings with aggregate carrying value of approximately HK\$2.0 million and nil, respectively, and (iii) mortgages over our prepaid land lease payments with carrying value of approximately HK\$3.0 million and nil, respectively.

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank and other borrowings) by total equity as at the end of the each period end. Our gearing ratio as at 31 December 2015 and 30 June 2016 was 21.0% and 4.1%, respectively. The decrease in gearing ratio was primarily due to less interest-bearing bank borrowings remained outstanding as at 30 June 2016 following the shrink in purchase scale.

Capital expenditure

During 2016 Interim, the Group invested approximately HK\$15.9 million (2015 Interim: approximately HK\$29.9 million) in fixed assets and intangible assets, of which approximately HK\$15.4 million (2015 Interim: approximately HK\$23.6 million) was used for the purchase and upgrade of equipments used for expansion of production facilities.

Off balance sheet transactions

During 2016 Interim, the Group did not enter into any material off balance sheet transactions.

Foreign exchange exposure and exchange rate risk

We have transactional currency exposure, which arise from sales in currencies other than the relevant operating units, that is, functional currencies. Approximately 99.3% and 94.7% of our sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 50.6% and 45.3% of inventory costs were denominated in their functional currencies for 2015 Interim and 2016 Interim, respectively.

We use forward currency contracts to manage currency risk. However, as a result of the depreciation of RMB against US\$, we recorded a loss of approximately HK\$0.8 million (2015 Interim: gain of approximately HK\$1.2 million) on the forward contracts for the 2016 Interim.

As at 30 June 2016, the Group has no outstanding forward currency contracts due to all the forward currency contracts were matured during 2016 Interim.

Events after the reporting period

There are no significant events occurred after the reporting period of 2016 Interim and up to the date of this announcement.

Treasury policies

We have implemented our internal treasury investment policies since January 2015 and revised it in December 2015, which provide the guidelines, requirements and approval process with respect to our treasury investment activities. We regularly evaluate the risks and returns of our wealth management products.

Under our treasury investment policy, we are 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) issued by well recognized publicly listed banks, (ii) no default history, and (iii) have a maturity term less than one year or can be easily converted into cash in the market. Our treasury investment policy also provides that the outstanding balance of our wealth management products shall not exceed 50% of 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 investments amount.

We have experienced management team and strict procedures in place to ensure the wealth management products are purchased in compliance with our internal policies and requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The management, internal audit and the Board (including the independent non-executive Directors) will regularly review our compliance with the treasury investment policies and assess the risk associated with our investments.

Our total investment under our treasury policy was approximately HK\$10.6 million as at 30 June 2016 (31 December 2015: HK\$2.8 million). The increase in such investments was for better managing our idle working capital. No listing proceeds were used to invest in the wealth management products.

Employees and emoluments policy

As at 30 June 2016, the Group had employed a total of 2,240 employees (31 December 2015: 3,095). The staff costs, including directors' emoluments but excluding any contributions to pension scheme, were approximately HK\$100.0 million for 2016 Interim (2015 Interim: approximately HK\$126.3 million), approximately HK\$6.0 million (2015 Interim: approximately HK\$1.4 million) of which are share option expenses. All of our employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. We seek to provide compensation for our research and development staff at above-market rates to attract and retain talent. We regularly review compensation and benefit policies to ensure that our practices are in line with the market and in compliance with relevant labour regulations. To provide our employees, among others, additional incentives to enhance our business performance, the Group has adopted the pre-IPO share option scheme on 29 May 2015 and the share option scheme on 12 June 2015, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes.

Significant Investments held

As at 30 June 2016, the Group held unlisted equity investments of approximately HK\$15.5 million. These unlisted equity investments were made in start-up companies which have synergy with the Group's business.

Application of global offering proceeds

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

Use of proceeds	Actual net proceeds HK\$ million	Actual utilisation up to 30 June 2016 HK\$ million	Balance as at 30 June 2016 HK\$ million
Purchase of land or completed properties or offices and purchase of production machinery	226.7	60.9	165.8
Possible mergers and acquisitions	116.5	68.2	48.3
Marketing expenditures	116.5	5.0	111.5
Research and development expenditures	92.0	45.1	46.9
Working capital and general corporate purposes	61.3	61.3	–
	<u>613.0</u>	<u>240.5</u>	<u>372.5</u>

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

Commitment

As at 30 June 2016, the Group’s operating lease and capital commitment amounted to approximately HK\$42.7 million (31 December 2015: HK\$52.5 million) and approximately HK\$70.8 million (31 December 2015: HK\$7.0 million), respectively. The lease commitment gradually decreased along with the decrease of tenure period in the lease contracts, while the capital commitment soared significantly which resulting from the entering into of agreements in relation to the acquisition plan of the iON Group.

Future plans for material investments or capital assets

The Group has made and will continue to make investments in certain start-up companies which have synergy with our business along our value chain. The Company will make announcement for any investments in accordance with the Listing Rules as and when appropriate.

Material acquisitions and disposals of subsidiaries and associated companies

As disclosed in the Company’s announcement dated 20 June 2016, the Company entered into certain agreements in respect of the restructuring and support the iON Group, the purpose of which is to rescue the iON Group and obtain control by acquiring the entire reorganised equity of the iON Group after its restructuring. As the applicable percentage ratio as set out in Chapter 14 of the Listing Rules in respect of the transactions contemplated under the agreements together is more than 5% but less than 25%, the transactions contemplated thereunder constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements. Up to the date of this announcement, the restructuring of the iON Group is still proceeding as planned.

Contingent liabilities

As at 30 June 2016, the Group had no significant contingent liabilities.

Dividends

The Board does not recommend the payment of interim dividend for 2016 Interim (2015 Interim: HK6 cents per share).

OTHER INFORMATION

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 2016 Interim.

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 Directors and they have confirmed that they have complied with the Model Code throughout the period from 1 January 2016 up to the date of this announcement.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines"), for securities transactions by relevant employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company. 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 Audit Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems, nominate and monitor external auditors and provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, being Mr. Wong Kee Fung Kenneth, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Wong Kee Fung Kenneth currently serves as the chairman of our Audit Committee.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control, financial reporting and risk management matters, including the review of the unaudited interim results and interim report for 2016 Interim.

Corporate governance practices

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

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Listing Rules as the basis of the Company’s corporate governance practices. Throughout the period from 1 January 2016 up to the date of this announcement, 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 Mr. Tang Wing Fong Terry is the chairman of the Board and chief executive officer of the Company, 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 of the Board 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 of the Board 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement for 2016 Interim has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.sky-light.com.hk>). The interim report of the Company for the six months ended 30 June 2016 containing information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 30 August 2016

As at the date of this announcement, the executive Directors are Mr. Tang Wing Fong Terry, Mr. Wu Yongmou and Mr. Lu Yongbin; the non-executive Directors are Mr. Huang Erwin Steve and Ms. Tang Kam Sau; and the independent non-executive Directors are Mr. Chan Tsu Ming Louis, Mr. Wong Kee Fung Kenneth and Dr. Cheung Wah Keung.