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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 2017

FINANCIAL HIGHLIGHTS

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

Note:

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

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 2017 ("2017 Interim"), together with the comparative figures for the six months ended 30 June 2016 ("2016 Interim"). These results have been reviewed by the Company's audit committee (the "Audit Committee").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	**30 June 2017 HK$'000 (Unaudited)**	31 December 2016 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**111,432**	121,387
Prepaid land lease payments		**2,752**	2,800
Goodwill		**93,089**	93,089
Intangible assets		**35,874**	37,512
Available-for-sale investments		**91,625**	61,180
Prepayments and other receivables		**13,676**	6,879
Deferred tax assets		**11,176**	13,437
Total non-current assets		**359,624**	336,284
CURRENT ASSETS			
Inventories	*11*	**197,763**	169,788
Trade receivables	*12*	**120,801**	285,823
Bills receivable		**3,866**	9,610
Available-for-sale investments		**10,606**	10,400
Due from a related party		**804**	1,184
Prepayments, deposits and other receivables		**91,895**	91,136
Cash and cash equivalents		**293,332**	480,436
Total current assets		**719,067**	1,048,377
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*13*	**31,995**	100,984
Trade payables	*14*	**103,761**	171,831
Bills payable		**1,918**	2,593
Other payables and accruals		**72,863**	73,969
Tax payable		**4,778**	5,475
Due to related parties		**271**	370
Total current liabilities		**215,586**	355,222
NET CURRENT ASSETS		**503,481**	693,155
TOTAL ASSETS LESS CURRENT LIABILITIES		**863,105**	1,029,439

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**5,394**	6,126
Total non-current liabilities	**5,394**	6,126
Net assets	**857,711**	1,023,313
EQUITY		
Equity attributable to owners of the parent		
Share capital	**8,537**	8,493
Shares held for Share Award Scheme	**(14,000)**	(14,000)
Reserves	**863,174**	1,028,820
Total equity	**857,711**	1,023,313

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 shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 July 2015.

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

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

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

2. BASIS OF PREPARATION

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*

Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements to HKFRSs 2012-2014 Cycle	*Amendments to a number of HKFRSs*

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

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

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

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

6. (LOSS)/PROFIT BEFORE TAX

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

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

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

7. FINANCE COSTS

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

8. INCOME TAX EXPENSE

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

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

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

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

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

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

9. DIVIDENDS

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2017 (2016 Interim: Nil).

10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

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

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

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

11. INVENTORIES

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

12. TRADE RECEIVABLES

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

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

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

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

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

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

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

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

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

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

At 30 June 2017, all of the bank loans of the Group were repayable within one year with effective interest rates range from 1.8% to 2.5% per annum (31 December 2016: range from 1.8% to 2.2% per annum).

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

All borrowings are denominated in United States dollars.

14. TRADE PAYABLES

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

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

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

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 eight years.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

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

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

For 2017 Interim, the Group's turnover significantly declined by approximately HK$253.7 million to approximately HK$306.0 million from approximately HK$559.7 million for the same period in 2016, which was primarily caused by the significant reduction in the shipment volume of home surveillance cameras and action cameras to the Group's key customers as compared to the corresponding period of 2016.

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

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

The digital imaging business recorded a moderate increase in sales, mainly owing to the stable shipment of police cameras to a leading police equipment provider in the US.

Prospects

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

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

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

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

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

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

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

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

Financial review

Turnover

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

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

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

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

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

Cost of sales

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

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

Gross profit and gross profit margin

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

Other income and gains

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

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

Selling and distribution expenses

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

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

Administrative expenses

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

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

Research and development costs

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

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

Other expenses

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

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

Finance costs

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

Income tax expense

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

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

Net loss

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

Liquidity and capital resources

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

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

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

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

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

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

Borrowing and the pledge of assets

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

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

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

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

Gearing ratio

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

Capital expenditure

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

Off balance sheet transactions

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

Foreign exchange exposure and exchange rate risk

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

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

Events after the reporting period

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

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 audit and the Board (including the independent non-executive Directors) regularly review its compliance with the treasury investment policies and assess the risk associated with these investments.

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

Employees and emoluments policy

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

Significant investments held

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

Application of global offering proceeds

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

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

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

Commitment

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

Future plans for material investments or capital assets

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

Material acquisitions and disposals of subsidiaries and associated companies

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

Contingent liabilities

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

Dividends

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

OTHER INFORMATION

Purchase, sale or redemption of listed securities

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

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 during 2017 Interim.

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

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 information and the 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 the 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 2017 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 2017 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 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement for 2017 Interim has been published on the websites of the Stock Exchange (http://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 2017 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, 31 August 2017

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.