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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	2018	2017	Change
	HK$'000	*HK$'000*	
REVENUE	**989,708**	716,452	38.1%
LOSS FOR THE YEAR	**(253,728)**	(485,300)	–47.7%
LOSS DIVIDED BY OPERATION			
— Loss for the year from a discontinued operation	**(182,952)**	(294,353)	–37.8%
— Loss for the year from continuing operations	**(70,776)**	(190,947)	–62.9%
	(253,728)	(485,300)	–47.7%
FURTHER BREAKDOWN — LOSS ATTRIBUTABLE TO CONTINUING OPERATIONS			
— Impairment loss of long term investments and other receivables from continuing operations	**(9,739)**	(88,827)	–89.0%
— Operating loss from continuing operations	**(61,037)**	(102,120)	–40.2%
	(70,776)	(190,947)	–62.9%

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors ("**Directors**") of Sky Light Holdings Limited (the "**Company**") announces the consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 ("**FY2018**"), together with the comparative figures for the year ended 31 December 2017 ("**FY2017**"). These consolidated financial results for FY2018 have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**989,708**	716,452
Cost of sales		**(816,751)**	(531,286)
Gross profit		**172,957**	185,166
Other income and gains	5	**22,824**	15,222
Selling and distribution expenses		**(29,458)**	(33,828)
Administrative expenses		**(90,268)**	(93,515)
Research and development expenses	6	**(98,858)**	(152,350)
Other expenses		**(41,357)**	(94,450)
Finance costs	7	**(1,302)**	(1,409)
Share of losses of associates		**(2,198)**	(3,367)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	**(67,660)**	(178,531)
Income tax expense	8	**(3,116)**	(12,416)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(70,776)**	(190,947)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	9	**(182,952)**	(294,353)
LOSS FOR THE YEAR		**(253,728)**	(485,300)
Attributable to:			
Owners of the parent		**(253,728)**	(485,300)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic			
— For loss for the year		**HK(29.8) cents**	HK(57.5) cents
— For loss from continuing operations		**HK(8.3) cents**	HK(22.6) cents
Diluted			
— For loss for the year		**HK(29.8) cents**	HK(57.5) cents
— For loss from continuing operations		**HK(8.3) cents**	HK(22.6) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(253,728)**	(485,300)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	405
Reclassification adjustments for losses included in the consolidated statement of profit or loss	**105**	–
Exchange differences on translation of foreign operations	**(12,372)**	27,669
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments designated at fair value through other comprehensive income	**2,996**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(9,271)**	28,074
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(262,999)**	(457,226)
Attributable to:		
Owners of the parent	**(262,999)**	(457,226)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**76,741**	107,447
Prepaid land lease payments		**2,610**	2,705
Intangible assets		**10,795**	11,801
Investments in associates		**–**	21,690
Available-for-sale investments		**–**	16,631
Equity investments designated at fair value through other comprehensive income		**34,035**	–
Prepayments and other receivables		**9,959**	6,263
Deferred tax assets		**–**	3,099
Total non-current assets		**134,140**	169,636
CURRENT ASSETS			
Inventories	*12*	**206,852**	414,653
Trade receivables	*13*	**122,602**	114,423
Available-for-sale investments		**–**	10,805
Financial assets at fair value through profit or loss		**2,635**	–
Due from a related party		**589**	835
Prepayments, other receivables and other assets		**49,343**	71,947
Cash and cash equivalents		**95,132**	203,129
Total current assets		**477,153**	815,792
CURRENT LIABILITIES			
Interest-bearing bank borrowings	*14*	**29,717**	89,265
Trade and bills payables	*15*	**169,046**	228,423
Other payables and accruals		**43,993**	79,159
Tax payable		**6,275**	17,150
Due to related parties		**84**	296
Total current liabilities		**249,115**	414,293
NET CURRENT ASSETS		**228,038**	401,499
TOTAL ASSETS LESS CURRENT LIABILITIES		**362,178**	571,135

	2018	2017
	HK$'000	*HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**362,178**	571,135
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**871**	871
Due to a related party	**51,240**	–
Total non-current liabilities	**52,111**	871
Net assets	**310,067**	570,264
EQUITY		
Equity attributable to owners of the parent		
Share capital	**8,572**	8,571
Shares held for Share Award Scheme	**(9,333)**	(9,333)
Reserves	**310,828**	571,026
	310,067	570,264
Total equity	**310,067**	570,264

NOTES TO 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 P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, 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 year, the Company's subsidiaries were principally engaged in:

- Manufacture and distribution of home surveillance cameras
- Manufacture and distribution of digital imaging products
- Manufacture and distribution of other products

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Fortune Six Investment Ltd., which is incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and available-for-sale investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 1 and HKAS 28 Annual Improvements 2014–2016 Cycle	*Annual Improvements 2014–2016 cycle*

Except as described below, the application of the new and revised standards has had no significant financial effect on these consolidated financial statements.

a. HKFRS 9 *Financial instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 Measurement			HKFRS 9 Measurement	
	Notes	**Category**	**Amount**	**Reclassification**	**Category**	**Amount**
			HK$'000	*HK$'000*		*HK$'000*
Financial assets						
Equity investments designated at fair value through other comprehensive income	*(i)*	N/A	–	16,631	FVOCI[1]	16,631
Financial assets at fair value through profit or loss	*(ii)*	N/A	–	10,805	FVPL[3]	10,805
From:						
Available-for-sale investments		AFS[2]	27,436	(27,436)	N/A	–

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

b. HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 would not involve an adjustment to the opening balance of retained profits as at 1 January 2018 and the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as deposits received from customers which is included in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals. Therefore, upon adoption of HKFRS 15, the Group reclassified HK$24,185,000 from deposits received from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018. As at 31 December 2018, under HKFRS 15, HK$18,536,000 was reclassified from deposits received from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of industrial products.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

the ODM/JDM business segment focuses on the sale, development and manufacture of imaging products which mainly comprises home surveillance cameras, action cameras and related accessories and other digital imaging products;

the ION360 business segment engages in the sale, development of cameras under its own brands.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

All of the revenue in ODM/JDM business segment and ION360 business segment are derived from the sale of goods, which is recognised when the goods are transferred at a point in time.

During the year, the Group has disposed of its ION360 business which has been loss making for some years. The disposal was in line with the developing strategy of the Group (note 11). The ION360 business was classified as a discontinued operation and no longer included in the note for operating segment information.

Geographical information

(a) Revenue from external customers

	2018	2017
	HK$'000	*HK$'000*
United States of America	**554,119**	432,586
Mainland China	**153,630**	101,743
European Union	**262,349**	156,909
Hong Kong	**7,430**	12,012
Other countries and areas	**12,180**	13,202
	989,708	716,452

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

(b) Non-current assets

	2018	2017
	HK$'000	*HK$'000*
Mainland China	**94,009**	138,004
Hong Kong	**5,251**	10,421
Other countries and areas	**845**	1,480
	100,105	149,905

The non-current asset information of continuing operations 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 individual customers, which accounted for 10% or more of the total revenue, is set out below:

	2018
	HK$'000
Customer A	369,236
Customer B	101,043

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sale of goods	**989,708**	716,452
Other income and gains		
Bank interest income	**1,257**	2,526
Government grants:		
Related to income*	**6,401**	12,545
Exchange gains	**7,264**	–
Gain on disposal of subsidiaries	**5,693**	–
Gain on disposal of an associate	**404**	–
Others	**1,805**	151
	22,824	15,222

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

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

6. LOSS BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
Cost of inventories sold	**808,236**	518,172
Depreciation	**32,313**	31,732
Amortisation of intangible assets*	**812**	7,303
Research and development expenses	**98,858**	152,350
Minimum lease payments under operating leases	**24,700**	20,318
Amortisation of prepaid land lease payments	**95**	95
Auditors' remuneration	**2,599**	2,509
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**116,646**	151,947
Pension scheme contributions	**13,825**	16,630
Equity-settled share option expense	**665**	8,740
	131,136	177,317
Exchange (gains)/losses, net	**(7,264)**	4,244
Write-down of inventories to net realisable value	**8,515**	13,114
Loss on disposal of items of property, plant and equipment	**2,297**	5
Gain on disposal of subsidiaries	**(5,693)**	–
Impairment of trade receivables, net**	**8,409**	–
Impairment of prepayments and other receivables**	**16,142**	5,430
Impairment of investments in associates**	**1,798**	9,695
Impairment of available-for-sale investments**	**–**	51,950
Impairment of intangible assets**	**–**	21,021
Gain on disposal of an associate	**(404)**	–
Bank interest income	**(1,257)**	(2,526)

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

** The impairment of trade receivables, the impairment of prepayments and other receivables, the impairment of investments in associates, the impairment of available-for-sale investments and the impairment of intangible assets are included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**1,302**	1,409

8. INCOME TAX

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% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

The Group's subsidiaries in the United States are subject to the federal tax rate of 21%, and also subject to the statutory applicable state corporate income tax at a rate of 7.0%.

	2018	2017
	HK$'000	*HK$'000*
Current — Mainland China	**–**	379
Current — Hong Kong	**–**	9,441
Deferred	**3,116**	2,596
Total tax charge for the year from continuing operations	**3,116**	12,416
Total tax charge for the year from a discontinued operation	**–**	2,850
	3,116	15,266

9. DISCONTINUED OPERATION

During the year, the board of directors of the Group had made the decision to dispose of the ION360 business located in the United States of America. The Group entered into an agreement to dispose of its 100% equity shares of ION Worldwide Inc., ION America LLC, ION360 (USA) LLC, ION360 Investments LLC, and ION360 Imaging LLC ("**ION USA**") to a third party at the consideration of one United States dollar. The disposal of ION USA became effective on 1 October 2018.

The results of these subsidiaries for the year are presented below:

	2018	2017
	HK$'000	*HK$'000*
Revenue	**280**	19,328
Expenses	**(183,232)**	(310,831)
Loss before tax from the discontinued operation	**(182,952)**	(291,503)
Income tax	**–**	2,850
Loss for the year from the discontinued operation	**(182,952)**	(294,353)

The net cash flows incurred by these subsidiaries are as follows:

	2018	2017
	HK$'000	*HK$'000*
Operating activities	**(2,678)**	(20,578)
Investing activities	**–**	(740)
Financing activities	**–**	–
Net cash outflows	**(2,678)**	(21,318)
Earnings per share:		
Basic, from the discontinued operation	**HK(21.5) cents**	HK(34.9) cents
Diluted, from the discontinued operation	**HK(21.5) cents**	HK(34.9) cents

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2018	2017
	HK$'000	*HK$'000*
Loss attributable to ordinary equity holders of the parent from the discontinued operation	**(182,952)**	(294,353)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(Note 11)*	**852,757,000**	844,383,000

10. DIVIDENDS

The board of directors of the Company did not recommend any final dividends for 2018 (2017: Nil).

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 852,757,000 (2017: 844,383,000) in issue during the year.

As an anti-dilutive effect was resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts for the years ended 31 December 2018 and 2017.

The calculations of basic loss per share are based on:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:	**(253,728)**	(485,300)
From continuing operations	**(70,776)**	(190,947)
From a discontinued operation	**(182,952)**	(294,353)

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**852,757,000**	844,383,000
Basic		
— For loss for the year	**HK(29.8) cents**	HK(57.5) cents
Diluted		
— For loss for the year	**HK(29.8) cents**	HK(57.5) cents

12. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**130,391**	195,310
Work in progress	**79,839**	103,108
Finished goods	**161,235**	140,351
	371,465	438,769
Inventory provision	**(164,613)**	(24,116)
	206,852	414,653

The movements of inventory provision are as follows:

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning of the year	**24,116**	64,734
Provision for the year	**156,832**	13,114
Written off as sold-out	**(12,621)**	(56,400)
Exchange realignment	**(3,714)**	2,668
Balance at end of the year	**164,613**	24,116

13. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**129,222**	114,423
Impairment	**(6,620)**	–
	122,602	114,423

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 with the internal control department minimising credit risk. 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 and net of loss allowance, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**47,917**	56,809
1 to 2 months	**61,906**	25,840
2 to 3 months	**4,860**	13,689
Over 3 months	**7,919**	18,085
	122,602	114,423

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	–
Allowance for doubtful debts	**8,758**	–
Written off as uncollectible	**(2,138)**	–
Balance at end of the year	**6,620**	–

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns by customer type. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables:

As at 31 December 2018

Category	**Carrying amount**		**Bad debt provision**		**Net Book**
	Amount	**Proportion**	**Amount**	**Proportion**	**Value**
		(%)		*(%)*	
Trade receivables for which bad debt provision has been assessed individually	16,126	12.48%	6,390	39.63%	9,736
Trade receivables for which bad debt provision has been assessed by using a provision matrix	113,096	87.52%	230	0.20%	112,866
Total	129,222	100%	6,620	5.12%	122,602

Trade receivables for which bad debt provision has been assessed by using a provision matrix:

	Current	**Less than 3 months**	**3 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
Expected credit loss rate	–	–	5%	30%	100%	–
Gross carrying amount *(HK$'000)*	106,650	6,071	–	207	168	113,096
Expected credit losses *(HK$'000)*	–	–	–	62	168	230

An ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *HK$'000*
Neither past due nor impaired	108,252
Less than 1 month past due	3,002
1 to 3 months past due	3,169
	114,423

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

14. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
Current	**Effective interest rate** *(%)*	**Maturity**	**HK$'000**	Effective interest rate *(%)*	Maturity	HK$'000
Bank loans — unsecured	**–**	**–**	**–**	1.8–2.9	2018	89,265
Bank loans — secured	**2.6–4.3**	**2019**	**29,717**	–	–	–
			29,717			89,265

	2018 ***HK$'000***	2017 *HK$'000*
Analysed into:		
Bank loans:		
Within one year	**29,717**	89,265

The Group's bank facilities amounting to HK$33,000,000 (2017: HK$275,817,000), of which HK$29,717,000 (2017: HK$89,265,000) had been utilised as at the end of the year.

The Group's banking facilities amounting to HK$10,000,000 are secured by mortgages over the Group's building. The Group's banking facility amounting to HK$23,000,000 is secured by an insurance and a wealth management product purchased from the bank.

All borrowings are denominated in United States dollars.

15. TRADE AND BILLS PAYABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade payables	**168,187**	209,843
Bills payable	**859**	18,580
	169,046	228,423

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

	2018 *HK$'000*	2017 *HK$'000*
Within 1 month	**78,762**	118,307
1 to 2 months	**52,929**	68,345
2 to 3 months	**29,154**	26,845
Over 3 months	**8,201**	14,926
	169,046	228,423

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

16. DISPOSAL OF SUBSIDIARIES

	2018 *HK$'000*
Property, plant and equipment	373
Cash and bank balances	95
Trade receivables	30
Prepayments and other receivables	3,263
Accruals and other payables	(9,454)
Net liabilities disposed of	(5,693)
Satisfied by cash	–
Gain on disposal of subsidiaries	5,693

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2018 ***HK$'000***
Cash consideration	**–**
Cash and bank balances disposed of	**(95)**
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(95)**

The Group has entered into an agreement dated 1 October 2018 to dispose of its 100% equity interests in the registered capital of ION Worldwide Inc., ION America LLC, ION360 (USA) LLC, ION360 Investments LLC, and ION360 Imaging LLC ("ION USA") to a third party at the consideration of one United States dollar.

The principal activities of ION USA are distributions of cameras. ION USA have been loss making for the past several years. The Directors are in the opinion that the disposal of ION USA is in line with the Group's developing strategy and could streamline the Group's structure.

17. 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 nine years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**19,423**	18,034
In the second to fifth years, inclusive	**56,919**	24,511
After five years	**3,667**	3,026
	80,009	45,571

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following capital commitments at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Unpaid investment amount*	**15,284**	–
Plant and machinery	**762**	1,419
	16,046	1,419

* On 12 December 2018, the Group entered into an agreement to invest in a company located in Vietnam by providing property, plant and equipment and cash amounted to approximately HK$15,284,000.

SCOPE OF WORK OF ERNST & YOUNG ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in the sales, development and manufacturing of home surveillance cameras, 360-degree cameras 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 2016 and introduced light cameras, doorbell cameras and LTE police cameras in 2018.

ODM/JDM business

For FY2018, the Group's turnover from the ODM/JDM business significantly increased by approximately HK$273.3 million to approximately HK$989.7 million from approximately HK$716.5 million for FY2017. The increase was primarily attributable to the substantial increase in the shipment volume of home surveillance camera products to the Group's key customers as compared with FY2017. The business was not as good as what we had expected in the 2nd half due to US-China trade war. More than 50% of our business fell into the list of 10% tariff to US. Some customers reduced their orders and halted project discussions. At the end of 2018, we decided to set up a company in Vietnam in which we own 65% interest. The Vietnam factory will start mass production in May 2019.

Home surveillance cameras of the Group's ODM/JDM business have become the major revenue source following the substantial increase in the shipment volume, and contributed approximately 66.7% of the Group's total revenue for FY2018.

Prospects

The Group considers that, the first half of 2019 will be challenging with the uncertainties in the business environment caused by the trade war between the People's Republic of China ("**China**") and the United States of America (the "**US**"). After we start our production in Vietnam in May 2019, our US customers don't need to worry about paying the tariffs. With that reason, we expect to have more new customers to discuss projects with us.

Anyway, we believe that imaging products and solutions will be widely used with different applications, especially when era of 5G is coming. We trust the market demand will increase continuously and the Group's management is confident in our future. Thus, the Group will work hard to increase market share and deliver high-quality products and solutions to its customers by pursuing the following strategies:

- Continue to develop innovative products by further investing in product planning and development capabilities;
- Strengthen customer relationships and further expand its customer base;
- Actively explore the market in Mainland China; and
- Improve the operations of its China and Vietnam factories.

Financial review

Turnover

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

	2018 *HK$'000*	**% of total revenue**	2017 *HK$'000*	% of total revenue	Revenue change
Home surveillance cameras	**660,121**	**66.7%**	371,853	51.9%	77.5%
Digital imaging products	**225,343**	**22.8%**	247,293	34.5%	–8.9%
Other products	**104,244**	**10.5%**	97,306	13.6%	7.1%
TOTAL	**989,708**	**100%**	716,452	100%	38.1%

For FY2018, the Group recorded a turnover of approximately HK$989.7 million from the ODM/JDM business (FY2017: approximately HK$716.5 million), representing a significant increase of approximately 38.1% as compared to FY2017. This increase was mainly attributable to the significant increase in the shipment units of home surveillance cameras and digital imaging products.

The Group sells its products mainly to customers in the US and European Union and it is expected that the US and European Union market will continue to account for majority of the Group's revenue in the foreseeable future. The significant increase in the sales in the US and European Union was due to the increase in the sales from home surveillance cameras to the Group's key customers, which are located in the US and European Union. The following table sets out the breakdown of revenue by location of customers for the periods indicated:

	2018	2017
	HK$'000	*HK$'000*
United States of America	**554,119**	432,586
Mainland China	**153,630**	101,743
European Union	**262,349**	156,909
Hong Kong	**7,430**	12,012
Other countries and areas	**12,180**	13,202
	989,708	716,452

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 FY2018, cost of sales of the Group amounted to approximately HK$816.8 million (FY2017: approximately HK$531.3 million), representing a increase of approximately 53.7% as compared to FY2017, and amounted to approximately 82.5% (FY2017: approximately 74.2%) of its turnover for FY2018. This increase was mainly attributable to a substantial increase in the shipment units of home surveillance cameras and digital imaging products.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately HK$173.0 million for FY2018 (FY2017: approximately HK$185.2 million), representing a decrease of approximately 6.6% as compared to FY2017. The gross profit margin decreased from approximately 25.8% for FY2017 to approximately 17.5% for FY2018, mainly due to the increase of cost of raw materials and the decrease of selling price of certain products.

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 FY2018, other income and gains of the Group slightly increased by approximately HK$15.2 million to approximately HK$22.8 million as compared to FY2017, which was primarily attributable to a decrease of approximately HK$6.1 million in government grants related to the research and development activities of the Group, an increase of approximately HK$7.3 million in exchange gains due to the depreciation of the Renminbi against the US dollar during the year and an increase of approximately HK$5.7 million in gain on disposal of subsidiary.

Selling and distribution expenses

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

For FY2018, selling and distribution expenses of the Group decreased approximately 12.9% to approximately HK$29.5 million from approximately HK$33.8 million for FY2017. The decrease was mainly due to the Group has controlled expenditure.

Administrative expenses

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

For FY2018, administrative expenses of the Group decreased by approximately 3.5% to approximately HK$90.3 million (FY2017: approximately HK$93.5 million). The decrease was mainly due to the Group has controlled expenditure.

Research and development costs

Research and development costs include (i) salaries and benefits of the Group's research and development and product planning staffs; (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 FY2018, the Group recorded research and development costs of approximately HK$98.9 million, which decreased by approximately 35.1% from approximately HK$152.3 million for FY2017. This decrease was mainly due to the Group has invested less in research and development on ION360 projects.

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 assets.

For FY2018, other expenses of the Group decreased to approximately HK$41.4 million from approximately HK$94.5 million for FY2017. This mainly consisted of (i) impairment losses of approximately HK$26.3 million (FY2017: approximately HK$88.1 million) in relation to some cooperation partners' default in repayment of deposits; and (ii) impairment losses of several available-for-sale investments.

Finance costs

For FY2018, the finance costs of the Group decreased to approximately HK$1.3 million (FY2017: approximately HK$1.4 million), representing a decrease by approximately 7.6% as compared to FY2017. This decrease was attributable to a decrease in average borrowing of US$ amounts from certain banks in Hong Kong.

Share of losses of associates

The Group invested in two start-up companies which are located in the United States and Mainland China, respectively. They are principally engaged in design and development of creative smart digital products.

As the Group has significant interests in these two companies and can exercise significant influence, other than control or joint control, over these two companies, the investments were accounted for under equity method. The Group's share of the post-acquisition results of associates is in the consolidated statement of profit or loss. For FY2018, the Group shared approximately HK$2.20 million losses from the associates.

Income tax expense

For FY2018, the income tax expense of the Group was approximately HK$3.1 million, which was due to the reversal of deferred tax asset.

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK$253.7 million for FY2018.

Liquidity and capital resources

The Group's principal cash requirements are to pay for working capital needs, capital expenditures for the expansion and upgrade of production facilities. The Group meets these cash requirements by relying on cash flows generated from operating activities and proceeds from issue of shares as its principal sources of funding. The following table sets out its selected consolidated cash flow for the periods indicated:

	2018	2017
	HK$'000	*HK$'000*
Net cash flows used in operating activities	**(87,681)**	(213,573)
Net cash flows used in investing activities	**(86)**	(51,255)
Net cash flows used in financing activities	**(9,561)**	(33,919)
Net decrease in cash and cash equivalents	**(97,328)**	(298,747)
Cash and cash equivalents at beginning of year	**203,129**	480,436
Effect of foreign exchange rate changes, net	**(10,669)**	21,440
Cash and cash equivalents at end of year	**95,132**	203,129

Net cash used in operating activities for FY2018 was approximately HK$87.7 million, which primarily reflected (i) the adjusted loss before tax of approximately HK$32.7 million; (ii) the increase of trade receivables of approximately HK$17.0 million; (iii) the decrease in inventory balances of approximately HK$54.7 million; (iv) the decrease in prepayments, deposits and other receivables of approximately HK$3.2 million; and (v) the decrease in trade payables of approximately HK$59.4 million.

Net cash used in investing activities for FY2018 was approximately HK$0.9 million. This mainly consisted of (i) payment of approximately HK$16.2 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; (ii) disposal of financial assets at fair value through profit or loss of approximately HK$8.0 million and financial assets at fair value through other comprehensive income of approximately HK$3.5 million and (iii) receipt of approximately HK$3.4 million for disposal of items of property, plant and equipment.

Net cash used in the financing activities for FY2018 was approximately HK$9.6 million, which was mainly reflected (i) the decrease in the use of interest-bearing bank borrowings to repay trade payables resulting in repayment of bank borrowings of approximately HK$59.6 million; and (ii) the interest-free loan provided by shareholder amounting to approximately HK$51.2 million.

The Group's cash and cash equivalents were denominated in US$, HK$ and RMB as at 31 December 2018.

Borrowing and the pledge of assets

The Group's bank facilities amounting to HK$33.0 million (FY2017: HK$275.8 million), of which HK$29.7 million (FY2017: HK$89.3 million) had been utilised as at the 31 December 2018.

The Group's banking facilities amounting to HK$10.0 million are secured by mortgages over the Group's building. The Group's banking facility amounting to HK$23.0 million is secured by an insurance and a wealth management product purchased from the bank.

The Group's bank and other borrowings are all denominated in US$ and bear fixed interest rates. As at 31 December 2018, the annual interest rate of bank borrowings ranged from 2.6% to 4.3% (31 December 2017: 1.8% to 2.9%).

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 2017 and 31 December 2018 was approximately 15.6% and approximately 9.6%, respectively. The decrease in gearing ratio was mainly due to the significant decrease in outstanding interest-bearing bank borrowings as at 31 December 2018 due to the shrinking of the bank facilities limit.

Capital expenditure

During FY2018, the Group invested approximately HK$12.5 million (FY2017: approximately HK$13.7 million) in fixed assets and intangible assets, which was mainly due to the increase of expenses for relocation of factory in Shenzhen.

Off balance sheet transactions

During FY2018, 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 87.6% and 87.3% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 52.7% and 47.4% of inventory costs were denominated in their functional currencies for FY2017 and FY2018, respectively.

The Group used forward currency contracts to manage currency risk. However, due to the high fluctuation in exchange rate during the year, the Group did not enter into any forward currency contracts during FY2018 and had no outstanding forward currency contracts as at 31 December 2018 (31 December 2017: Nil).

Events after the reporting period

On 14 February 2019, the Group established a company under the name of Sky Light Electronics Joint Stock Company in Vietnam ("Sky Light Vietnam") with CNC Holdings Vietnam Joint Stock Company ("CNCTech"), an independent third party. The Group holds a 65% equity interest in Sky Light Vietnam by providing property, plant, equipment in the amount of approximately HK$13,450,000 and cash of HK$1,834,000 as the initial capital contribution. CNCTech holds 35% of the equity interest in Sky Light Vietnam by providing cash of HK$8,225,000 as the initial capital contribution.

On 15 January 2019, the Company and Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the loans from Tang Wing Fong Terry of HK$51,240,000 at the year-end have been converted to capital of the Company.

Treasury policies

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

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

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

During 2018, the Group did not have any investment under its treasury policies.

Employees and emoluments policy

As at 31 December 2018, the Group employed a total of 1,164 employees (31 December 2017: 1,889). The staff costs of the Group, excluding directors' emoluments and any contributions to pension scheme, were approximately HK$117.3 million for FY2018 (FY2017: approximately HK$160.6 million), approximately HK$0.7 million (FY2017: approximately HK$8.7 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 staffs at above-market levels to attract and retain talents. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes. 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 talents; and (ii) attract suitable personnel for the Group's further development.

Significant investments held

As at 31 December 2018, the Group held unlisted equity investment with a carrying amount of HK$34.0 million (31 December 2017: approximately HK$27.4 million).

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 Company has not utilised and will not utilise any net proceeds for purposes other than those disclosed in the prospectus of the Company dated 19 June 2015 and the Announcement (as defined below).

As disclosed in the announcement of the Company dated on 23 January 2018 (the "**Announcement**"), the Board has resolved to change the use of and propose to apply the above unutilized net proceeds for the purpose of the Company's (i) marketing expenditures relating to the development and promotion of house brands; (ii) research and development expenditures relating to development of new products and the recruitment of additional engineers; and (iii) purchases of raw materials.

Use of proceeds	**Actual net proceeds**	**Actual utilisation up to 31 December 2018**	**Balance as at 31 December 2018**
	HK$ million	*HK$ million*	*HK$ million*
Purchase of land or completed properties or offices and purchase of production machinery	71.8	71.8	–
Marketing expenditures	138.9	138.9	–
Possible mergers and acquisitions	116.5	116.5	–
Research and development expenditures	156.4	156.4	–
Working capital and general corporate purposes	129.4	129.4	–
	613.0	613.0	–

Commitment

As at 31 December 2018, the Group's operating lease and capital commitment amounted to approximately HK$80.3 million (31 December 2017: approximately HK$45.6 million) and approximately HK$16.0 million (31 December 2017: approximately HK$1.4 million). On 14 February 2019, the Group invested in a company named Sky Light Electronics Joint Stock Company in Vietnam by providing property, plant and equipment, amounting to approximately HK$15.2 million.

Future plans for material investments or capital assets

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

Material acquisitions and disposals of subsidiaries and associated companies

Except for the disposal of ION360 business to IYC CAPITAL LLC, a company Incorporated in Delaware with limited liability, for consideration of US$1, there are no other material acquisitions and disposals of subsidiaries and associated companies during FY2018. As all applicable percentage ratios as set out in Chapter 14 of the Listing Rules in respect of the transactions were less than 5%, they were not notifiable transactions subject to the reporting and announcement requirements.

Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

Annual general meeting

The annual general meeting of the Company (the "**AGM**") is scheduled to be held on Friday, 24 May 2019. A notice convening the AGM will be issued and disseminated to the Shareholders in due course.

Dividends

The Board does not recommend the payment of any final dividend for FY2018 (FY2017: Nil).

Closure of register of members

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019 (both days inclusive) during which no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 May 2019.

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 FY2018.

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 FY2018.

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. Tse Yat Hong, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Tse Yat Hong currently serves as the chairman of 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 annual results and annual report for FY2018.

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 2018 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 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sky-light.com.hk). The annual report of the Company for the year ended 31 December 2018 containing information required by the Listing Rules will be dispatched to 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, 27 March 2019

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