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 2019

FINANCIAL HIGHLIGHTS

	2019	2018	CHANGE
	HK$'000	*HK$'000*	
REVENUE	**549,123**	989,708	(44.5%)
COST OF SALES	**(486,640)**	(816,751)	(40.4%)
GROSS PROFIT	**62,483**	172,957	(63.9%)
GROSS PROFIT MARGIN (%)	**11.4%**	17.5%	(6.1) p.p.t.
LOSS FOR THE YEAR	**(84,476)**	(253,728)	(66.7%)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT BASIC AND DILUTED (EXPRESSED IN HK$ PER SHARE)	**HK(8.8) cents**	HK(29.8) cents	(70.5%)
TOTAL EQUITY	**273,349**	310,067	(11.8%)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 ("**FY2019**"), together with the comparative figures for the year ended 31 December 2018 ("**FY2018**"). These consolidated financial results for FY2019 have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**549,123**	989,708
Cost of sales		**(486,640)**	(816,751)
Gross profit		**62,483**	172,957
Other income and gains	5	**9,558**	22,824
Selling and distribution expenses		**(26,817)**	(29,458)
Administrative expenses		**(61,116)**	(90,268)
Research and development expenses	6	**(57,935)**	(98,858)
Other expenses		**(7,664)**	(41,357)
Finance costs	7	**(2,985)**	(1,302)
Share of losses of associates		**–**	(2,198)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	**(84,476)**	(67,660)
Income tax expense	8	**–**	(3,116)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(84,476)**	(70,776)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation		**–**	(182,952)
LOSS FOR THE YEAR		**(84,476)**	(253,728)
Attributable to:			
Owners of the parent		**(82,310)**	(253,728)
Non-controlling interests		**(2,166)**	–
		(84,476)	(253,728)

	Note	**2019**	2018
		HK$'000	*HK$'000*
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic			
— For loss for the year		**HK(8.8) cents**	HK(29.8) cents
— For loss from continuing operations		**HK(8.8) cents**	HK(8.3) cents
Diluted			
— For loss for the year		**HK(8.8) cents**	HK(29.8) cents
— For loss from continuing operations		**HK(8.8) cents**	HK(8.3) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(84,476)**	(253,728)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Financial assets at fair value through profit or loss:		
Reclassification adjustments for losses included in the consolidated statement of profit or loss	**–**	105
Exchange differences on translation of foreign operations	**(7,275)**	(12,372)
Other comprehensive (loss)/income 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	**(7,959)**	2,996
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(15,234)**	(9,271)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(99,710)**	(262,999)
Attributable to:		
Owners of the parent	**(97,544)**	(262,999)
Non-controlling interests	**(2,166)**	–
	(99,710)	(262,999)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**59,531**	76,741
Right-of-use assets	*11(b)*	**47,559**	–
Prepaid land lease payments	*11(a)*	**–**	2,610
Intangible assets		**9,910**	10,795
Equity investments designated at fair value through other comprehensive income		**26,076**	34,035
Prepayments and other receivables		**4,379**	9,959
Total non-current assets		**147,455**	134,140
CURRENT ASSETS			
Inventories	*12*	**134,410**	206,852
Trade receivables	*13*	**81,135**	122,602
Financial assets at fair value through profit or loss		**2,646**	2,635
Due from a related party		**398**	589
Prepayments and other receivables		**25,875**	49,343
Pledged deposits		**893**	–
Cash and cash equivalents		**106,899**	95,132
Total current assets		**352,256**	477,153
CURRENT LIABILITIES			
Interest-bearing bank borrowings	*14*	**16,678**	29,717
Trade and bills payables	*15*	**106,531**	169,046
Other payables and accruals		**62,819**	43,993
Tax payable		**6,275**	6,275
Due to related parties		**46**	84
Total current liabilities		**192,349**	249,115
NET CURRENT ASSETS		**159,907**	228,038
TOTAL ASSETS LESS CURRENT LIABILITIES		**307,362**	362,178

	2019 *HK$'000*	2018 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**307,362**	362,178
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**871**	871
Other long term payables	**33,142**	–
Due to a related party	**–**	51,240
Total non-current liabilities	**34,013**	52,111
Net assets	**273,349**	310,067
EQUITY		
Equity attributable to owners of the parent		
Share capital	**9,528**	8,572
Shares held for Share Award Scheme	**–**	(9,333)
Reserves	**257,836**	310,828
	267,364	310,067
Non-controlling interests	**5,985**	–
Total equity	**273,349**	310,067

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 electronic 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 profit or loss and equity investments designated at fair value through other comprehensive income. 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 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendments, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations. Since the Group recognised the right-of-use assets in relation to the operating lease that were under HKAS 17 at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments on transition date, there was no impact on the retained profit.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, buildings and other equipment. Before the adoption of HKFRS 16, the Group classified each of its leases (as lessee) at the inception date as operating leases. The lease payments were recognised as expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and other payables, respectively. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and other long term payables. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. The current and non-current portions of prepaid lease payments, which represent medium-term leasehold lands in Hong Kong, amounting to HK$95,000 and HK$2,610,000 respectively were reclassified to right-of-use assets at 1 January 2019.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/(decrease) *HK$'000*
Assets	
Increase in right-of-use assets	67,856
Decrease in prepaid land lease payments	(2,610)
Decrease in prepayments and other receivables	(95)
Increase in total assets	65,151
Liabilities	
Increase in other payables	14,536
Increase in other long term payables	50,615
Increase in total liabilities	65,151

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	80,009
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	47
Commitments relating to leases of low-value assets	44
Add: Payments in optional extension periods not recognised as at 31 December 2018	2,618
	82,536
Weighted average incremental borrowing rate as at 1 January 2019	4.85%
Discounted operating lease commitments as at 1 January 2019	65,151
Lease liabilities as at 1 January 2019	65,151

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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:

(a) the ODM/JDM business segment focuses on the sale, development and manufacture of imaging products which mainly comprise home surveillance cameras, digital imaging products and other products; and

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

During the year ended 31 December 2018, 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. 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

	2019	2018
	HK$'000	*HK$'000*
United States of America	**300,781**	554,119
Mainland China	**65,891**	153,630
European Union	**140,670**	262,349
Hong Kong	**7,814**	7,430
Other countries and areas	**33,967**	12,180
	549,123	989,708

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

(b) Non-current assets

	2019	2018
	HK$'000	*HK$'000*
Mainland China	**93,983**	94,009
Hong Kong	**6,392**	5,251
Other countries and areas	**21,004**	845
	121,379	100,105

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

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:

	2019
	HK$'000
Customer A	98,404
Customer B	87,209
Customer C	60,865

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Type of goods or services		
Sale of industrial products	**549,123**	989,708
Timing of revenue recognition		
Goods transferred at a point in time	**549,123**	989,708

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.

	2019	2018
	HK$'000	*HK$'000*
Other income and gains		
Bank interest income	**1,341**	1,257
Government grants:		
Related to income*	**6,371**	6,401
Exchange gains	**230**	7,264
Gain on disposal of subsidiaries	**–**	5,693
Gain on disposal of an associate	**–**	404
Others	**1,616**	1,805
	9,558	22,824

* 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.

6. LOSS BEFORE TAX

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

	2019	2018
	HK$'000	*HK$'000*
Cost of inventories sold	**425,495**	808,236
Depreciation of property, plant and equipment	**26,122**	32,313
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	**14,707**	95
Amortisation of intangible assets*	**1,094**	812
Research and development expenses	**57,935**	98,858
Minimum lease payments under operating leases	**–**	24,700
Lease payments not included in the measurement of lease liabilities	**91**	–
Auditors' remuneration	**2,448**	2,599
Employee benefit expense (excluding directors' and chief executive's remuneration)		
Wages and salaries	**106,586**	116,646
Pension scheme contributions	**9,833**	13,825
Equity-settled share option expense	**4,698**	665
Equity-settled Share Award Scheme expense	**(2,326)**	–
	118,791	131,136
Exchange gains, net	**(230)**	(7,264)
Write-down of inventories to net realisable value	**61,145**	8,515
Loss on disposal of items of property, plant and equipment	**1,550**	2,297
Impairment of trade receivables**	**2,244**	8,409
Impairment of prepayments and other receivables**	**–**	16,142
Impairment of investments in associates**	**–**	1,798
Gain on disposal of subsidiaries	**–**	(5,693)
Gain on disposal of an associate	**–**	(404)
Gain on disposal of right-of-use assets	**(140)**	–
Bank interest income	**(1,341)**	(1,257)
Fair value (gain)/loss, net:		
Financial assets at fair value through profit or loss	**(11)**	178

* 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, and the impairment of investments in associates 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:

	2019	2018
	HK$’000	*HK$’000*
Interest on:		
Bank loans	**822**	1,302
Lease liabilities	**2,163**	–
	2,985	1,302

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% (2018: 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 one (2018: two) of the Group’s principal operating subsidiaries, Sky Light Shenzhen, since it was recognised as a High and New Technology Enterprise and 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 at a rate of 21% (2018: 21%), and also subject to the statutory applicable state corporate income tax at a rate of 8.84% (2018: 7%).

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

	2019	2018
	HK$’000	*HK$’000*
Deferred tax	**–**	3,116
Total tax charge for the year from continuing operations	**–**	3,116
	–	3,116

9. DIVIDENDS

The board of directors of the Company did not recommend any final dividends for 2019 (2018: Nil).

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 938,965,000 (2018: 852,757,000) 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 2019 and 2018.

The calculations of basic loss per share are based on:

	2019	2018
	HK$'000	*HK$'000*
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:	**(82,310)**	(253,728)
From continuing operations	**(82,310)**	(70,776)
From a discontinued operation	**–**	(182,952)

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**938,965,000**	852,757,000
Basic		
— For loss for the year	**HK(8.8) cents**	HK(29.8) cents
Diluted		
— For loss for the year	**HK(8.8) cents**	HK(29.8) cents

11. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, buildings and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 35 years, and no ongoing payments will be made under the terms of these land leases. Buildings generally have lease terms between 3 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

(a) Prepaid land lease payments (before 1 January 2019)

	2018 *HK$'000*
Carrying amount at 1 January 2018	2,800
Recognised in profit or loss during the year	(95)
Carrying amount at 31 December 2018	2,705
Current portion included in prepayments and other receivables	(95)
Non-current portion	2,610

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

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments *HK$'000*	**Buildings** *HK$'000*	**Total** *HK$'000*
As at 1 January 2019	2,705	65,151	67,856
Additions	–	282	282
Depreciation charge	(95)	(14,612)	(14,707)
Disposals	–	(5,002)	(5,002)
Exchange realignment	–	(870)	(870)
As at 31 December 2019	2,610	44,949	47,559

(c) Lease liabilities

The carrying amount of lease liabilities (included under other payables and accruals and other long term payables) and the movements during the year are as follows:

	2019 **Lease liabilities** ***HK$'000***
Carrying amount at 1 January 2019	**65,151**
New leases	**282**
Accretion of interest recognised during the year	**2,163**
Disposals	**(5,142)**
Payments	**(14,924)**
Exchange realignment	**(892)**
Carrying amount at 31 December 2019	**46,638**
Analysed into:	
Current portion	**13,496**
Non-current portion	**33,142**

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019
	HK$'000
Interest on lease liabilities	**2,163**
Depreciation charge of right-of-use assets	**14,707**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	**48**
Expense relating to leases of low-value assets (included in administrative expenses)	**43**
Total amount recognised in profit or loss	**16,961**

12. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Raw materials	**120,820**	130,391
Work in progress	**55,725**	79,839
Finished goods	**162,787**	161,235
	339,332	371,465
Inventory provision	**(204,922)**	(164,613)
	134,410	206,852

The movements of inventory provision are as follows:

	2019	2018
	HK$'000	*HK$'000*
Balance at beginning of the year	**164,613**	24,116
Provision for the year	**61,145**	156,832
Written off as sold-out	**(18,411)**	(12,621)
Exchange realignment	**(2,425)**	(3,714)
Balance at end of the year	**204,922**	164,613

13. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**84,364**	129,222
Impairment	**(3,229)**	(6,620)
	81,135	122,602

The Group requires most of its customers to make payments 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**76,982**	47,917
1 to 2 months	**3,723**	61,906
2 to 3 months	**300**	4,860
Over 3 months	**130**	7,919
	81,135	122,602

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

	2019	2018
	HK$'000	*HK$'000*
At beginning of year	**6,620**	–
Impairment losses *(note 6)*	**2,244**	8,758
Amount written off as uncollectible	**(5,619)**	(2,138)
Exchange adjustments	**(16)**	–
At end of year	**3,229**	6,620

The decrease (2018: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Decrease in the loss allowance of HK$6,684,000 as a result of a net decrease of trade receivables which were assessed individually;

(ii) Increase in the loss allowance of HK$170,000 as a result of the changes in ECLs which were caused by the changes in historical observed default rates and forecast economic conditions;

(iii) Decrease in the loss allowance of HK$3,481,000 as a result of the write-off of certain trade receivables.

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 2019

Category	**Carrying amount**		**Bad debt provision**		**Net book value**
	Amount	**Proportion (%)**	**Amount**	**Proportion (%)**	
Trade receivables for which bad debt provision has been assessed individually	**2,642**	**3.13%**	**2,642**	**100%**	**–**
Trade receivables for which bad debt provision has been assessed by using a provision matrix	**81,722**	**96.87%**	**587**	**0.72%**	**81,135**
Total	**84,364**	**100%**	**3,229**	**3.83%**	**81,135**

As at 31 December 2018

Category	Carrying amount		Bad debt provision		Net book value
	Amount	Proportion (%)	Amount	Proportion (%)	
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:

As at 31 December 2019

		Past due				
	Current	**Less than 3 months**	**3 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
Expected credit loss rate	**0.38%**	**1.20%**	**4.20%**	**22.77%**	**100%**	**–**
Gross carrying amount *(HK$'000)*	**77,276**	**3,769**	**313**	**167**	**197**	**81,722**
Expected credit losses *(HK$'000)*	**294**	**45**	**13**	**38**	**197**	**587**

As at 31 December 2018

		Past due				
	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

14. INTEREST-BEARING BANK BORROWINGS

	31 December 2019			31 December 2018		
Current	***Effective interest rate (%)***	***Maturity***	***HK$'000***	*Effective interest rate (%)*	*Maturity*	*HK$'000*
Bank loans — secured	**3.1~4.0**	**2020**	**16,678**	2.6–4.3	2019	29,717

	2019	2018
	HK$'000	*HK$'000*
Analysed into:		
Within one year	**16,678**	29,717

The Group's bank facilities amounted to HK$23,000,000 (2018: HK$33,000,000), of which HK$16,678,000 (2018: HK$29,717,000) had been utilised as at the end of the year.

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

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**106,531**	168,187
Bills payable	**–**	859
	106,531	169,046

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

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**87,367**	78,762
1 to 2 months	**7,296**	52,929
2 to 3 months	**4,598**	29,154
Over 3 months	**7,270**	8,201
	106,531	169,046

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

16. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019	2018
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Unpaid investment amount	**–**	15,284
Plant and machinery	**1,089**	762
	1,089	16,046

(b) Operating lease commitments as at 31 December 2018

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

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

	2018
	HK$'000
Within one year	19,423
In the second to fifth years, inclusive	56,919
After five years	3,667
	80,009

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 2019 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 manufacture of home surveillance cameras, 360-degree cameras and other digital imaging products such as police cameras, conference video 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.

ODM/JDM business

For FY2019, the Group's turnover from the ODM/JDM business significantly dropped by approximately HK$440.6 million to approximately HK$549.1 million from approximately HK$989.7 million for FY2018. The drop was mainly caused by the US tariffs imposed to our most products for our US customers. Our US customers reduced their orders and halted the project discussions until our new factory in Vietnam was set up at the middle of 2019.

Home surveillance cameras of the Group's ODM/JDM business was still the major revenue source, and contributed approximately 51.2% of the Group's total revenue for FY2019. Due to 25% US tariff imposed on the products, the revenue of home surveillance cameras dropped HK$379.0 million compared to FY2018.

Prospects

The Group considers that worldwide economy in 2020 will be affected by the aggravation of protectionism and spread of the novel coronavirus ("**COVID-19**"). After we set up the factory in Vietnam at the middle of 2019, our US customers don't need to worry about paying the tariffs. With their consent, we will move all our production for US customers to Vietnam in 2020. We hope that we can save cost and will have more business opportunities. In order to widen our product lines with our technical know-how, we are developing a new product for educational market which is growing very fast in China. In order to improve our financial result and turnaround as soon as possible, we will work hard to increase market share and deliver high-quality products and solutions to our customers by pursuing the following strategies:

- Continue to develop innovative products and explore other potential product lines with our technical know-how;
- Actively explore the market in Japan, Europe and Mainland China;
- Save cost by optimizing and improving the operations both in 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:

	2019 *HK$'000*	**% of total revenue**	2018 *HK$'000*	% of total revenue	Revenue change
Home surveillance cameras	**281,167**	**51.2%**	660,121	66.7%	–57.4%
Digital imaging products	**159,548**	**29.1%**	225,343	22.8%	–29.2%
Other products	**108,408**	**19.7%**	104,244	10.5%	4.0%
TOTAL	**549,123**	**100%**	989,708	100%	–44.5%

For FY2019, the Group recorded a turnover of approximately HK$549.1 million from the ODM/JDM business (FY2018: approximately HK$989.7 million), representing a significant decrease of approximately 44.5% as compared to FY2018. This decrease was mainly attributable to the significant decline of customer orders, which was influenced by the China-US trade war.

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 decrease in the sales in the US and European Union was due to the decrease 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:

	2019	2018
	HK$'000	*HK$'000*
United States of America	**300,781**	554,119
Mainland China	**65,891**	153,630
European Union	**140,670**	262,349
Hong Kong	**7,814**	7,430
Other countries and areas	**33,967**	12,180
	549,123	989,708

Cost of sales

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

For FY2019, cost of sales of the Group amounted to approximately HK$486.6 million (FY2018: approximately HK$816.8 million), representing a decrease of approximately 40.4% as compared to FY2018, and amounted to approximately 88.6% (FY2018: approximately 82.5%) of its turnover for FY2019. This decrease was mainly attributable to a substantial decrease 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$62.5 million for FY2019 (FY2018: approximately HK$173.0 million), representing a decrease of approximately 63.9% as compared to FY2018. The gross profit margin decreased from approximately 17.5% for FY2018 to approximately 11.4% for FY2019, mainly due to the provision for inventory increased by approximately HK$52.6 million as compared to FY2018.

Other income and gains

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

For FY2019, other income and gains of the Group significantly decreased by approximately HK$13.3 million to approximately HK$9.6 million as compared to FY2018, which was primarily attributable to a decrease of approximately HK$7.0 million in exchange gains and a decrease of approximately HK$5.7 million in gain on disposal of subsidiaries.

Selling and distribution expenses

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

For FY2019, selling and distribution expenses of the Group slight decreased approximately 9.0% to approximately HK$26.8million from approximately HK$29.5 million for FY2018, mainly due to the decrease of transport expenses approximately HK$1.8 million for FY2019.

Administrative expenses

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

For FY2019, administrative expenses of the Group significant decreased by approximately 32.3% to approximately HK$61.1 million (FY2018: approximately HK$90.3 million). The decrease was mainly due to the cutting down of the personnel cost as a results of the optimising of the Group.

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 FY2019, the Group recorded research and development costs of approximately HK$57.9 million, which significantly decreased by approximately 41.4% from approximately HK$98.9 million for FY2018. This decrease was mainly due to the downsize of Research and development staff to improve the Group's operation efficiency.

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 FY2019, other expenses of the Group significantly decreased to approximately HK$7.7 million from approximately HK$41.4 million for FY2018. The decrease mainly consisted of (i) impairment losses of approximately HK$2.2 million (FY2018: approximately HK$26.3 million) in relation to some cooperation partners' default in repayment of deposits; and (ii) net loss on disposal of fixed assets approximately HK$1.6 million (FY2018: approximately HK$2.3 million).

Finance costs

For FY2019, the finance costs of the Group increased to approximately HK$3.0 million (FY2018: approximately HK$1.3 million), representing an increase by approximately 129.3% as compared to FY2018. This increase was attributable to the adoption of HKFRS 16.

Income tax expense

For FY2019, there was no income tax expense due to the loss for the year.

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK$84.5 million for FY2019 (attributable to non-controlling interests is a loss of approximately HK$2.2 million).

Liquidity and capital resources

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

	2019	2018
	HK$'000	*HK$'000*
Net cash flows from/(used in) operating activities	**44,924**	(87,681)
Net cash flows used in investing activities	**(5,400)**	(86)
Net cash flows used in financing activities	**(21,028)**	(9,561)
Net increase/(decrease) in cash and cash equivalents	**18,496**	(97,328)
Cash and cash equivalents at beginning of year	**95,132**	203,129
Effect of foreign exchange rate changes, net	**(6,729)**	(10,669)
Cash and cash equivalents at end of year	**106,899**	95,132

Net cash from operating activities for FY2019 was approximately HK$44.9 million, which primarily reflected (i) the adjusted loss before tax of approximately HK$26.5 million; (ii) the decrease in trade receivables of approximately HK$39.2 million; (iii) the decrease in inventory balances of approximately HK$13.7 million; (iv) the decrease in prepayments and other receivables of approximately HK$23.4 million; and (v) the decrease in trade payables of approximately HK$62.5 million.

Net cash used in investing activities for FY2019 was approximately HK$5.4 million. This mainly consisted of (i) payment of approximately HK$13.8 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) receipt of approximately HK$7.1 million for disposal of items of property, plant and equipment.

Net cash used in the financing activities for FY2019 was approximately HK$21.0 million, which was mainly reflected (i) the decrease in the use of interest-bearing bank borrowings to repay trade payable resulting in repayment of bank borrowings of approximately HK$13.0 million; (ii) the principal portion of lease payments to approximately HK$14.9 million; and (iii) the capital contribution received from a non-controlling shareholder to approximately HK$8.2 million.

The Group's cash and cash equivalents were denominated in US$, HK$ and RMB as at 31 December 2019.

Borrowing and the pledge of assets

The Group's bank facilities amounting to HK$23.0 million (FY2018: HK$33.0 million), of which HK$16.7 million (FY2018: HK$29.7 million) had been utilised as at the 31 December 2019.

As at 31 December 2019, an insurance and a wealth management product purchased from the bank was pledged to secure certain banking facilities for the Group (31 December 2018: a mortgage over the Group's building and an insurance and a wealth management product purchased from the bank were pledged to secure certain banking facilities for the Group)

The Group's bank and other borrowings are all denominated in US$. As at 31 December 2019, the annual interest rate of bank borrowings ranged from 3.1% to 4.0% (FY2018: 2.6% to 4.3%).

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank borrowings) by total equity as at the end of the each period end. The Group's gearing ratio as at 31 December 2018 and 31 December 2019 was approximately 9.6% and approximately 6.1%, respectively. The decrease in gearing ratio was mainly due to the significant decrease in outstanding interest-bearing bank borrowings and the capitalization of the shareholder loans during FY2019.

Capital expenditure

During FY2019, the Group invested approximately HK$19.4 million (FY2018: approximately HK$12.5 million) in fixed assets and intangible assets, which was mainly due to the increase of renovation costs from Shenzhen and Vietnam factory.

Off balance sheet transactions

During FY2019, 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 87.3% and 89.7% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 47.4% and 50.6% of inventory costs were denominated in their functional currencies for FY2018 and FY2019, respectively.

Events after the reporting period

Since COVID-19 continues to spread throughout the world, certain business operations of the Group, in particular, the supply chain and customer orders were impacted, and the degree of the COVID-19 impact will vary depending on the situation of the epidemic preventive measures and the duration of the epidemic. Given the dynamic nature of these circumstances, the Group will continuously evaluate the impact on the revenue and financial results of the Group for the year 2020 and make timely disclosure of any important matters.

Treasury policies

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

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

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

During 2019, the Group did not have any investment under its treasury policies.

Employees and emoluments policy

As at 31 December 2019, the Group employed a total of 1,200 employees (31 December 2018: 1,164). The staff costs of the Group, excluding directors' emoluments were approximately HK$118.8 million for FY2019 (FY2018: approximately HK$131.1 million), approximately HK$2.4 million (FY2018: approximately HK$0.7 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 staff at above-market levels to attract and retain talents. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes.

Significant investments held

The Group held 9.82% equity interest in a start-up company, Kandao Technology Co., Ltd., which focuses on the technology and development of software and hardware for imaging electronics product and has synergies with the Group's business.

As at 31 December 2019, the fair value of this investment held by the group was approximately HK$26.1 million (31 December 2018: approximately HK$34.0 million). No dividend was received from this investment during 2019 (2018: Nil).

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

(i) This investment still has potential for growth in the future;

(ii) This investment has synergies with the Group's business and can widen our sales channel.

Commitment

As at 31 December 2019, the Group's capital commitment amounted to approximately HK$1.1 million (31 December 2018: approximately HK$16.0 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

The Group did not have any material acquisitions and disposals of subsidiaries, associated companies and joint ventures during FY2019.

Contingent liabilities

As at 31 December 2019, 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 Tuesday, 26 May 2020. 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 FY2019 (FY2018: Nil).

Closure of register of members

The register of members of the Company will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 20 May 2020.

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 FY2019.

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 FY2019.

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 FY2019.

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 2019 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 2019 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 2020

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 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.