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SKY LIGHT HOLDINGS LIMITED
天彩控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3882)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

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

The board (the "**Board**") of directors ("**Directors**") of Sky Light Holdings Limited (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020 ("**2020 Interim**"), together with the comparative figures for the six months ended 30 June 2019 ("**2019 Interim**"). These results have been reviewed by the Company's audit committee (the "**Audit Committee**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2020	2019
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	*5*	**157,568**	265,647
Cost of sales		**(125,354)**	(230,683)
Gross profit		**32,214**	34,964
Other income and gains	*5*	**8,901**	5,590
Selling and distribution expenses		**(13,325)**	(13,126)
Administrative expenses		**(24,260)**	(24,577)
Research and development expenses		**(22,942)**	(28,778)
Other expenses		**(1,851)**	(6,915)
Finance costs	*7*	**(1,200)**	(1,653)
LOSS BEFORE TAX	*6*	**(22,463)**	(34,495)
Income tax expense	*8*	**–**	(44)
LOSS FOR THE PERIOD		**(22,463)**	(34,539)
Attributable to:			
Owners of the parent		**(20,540)**	(34,348)
Non-controlling interests		**(1,923)**	(191)
		(22,463)	(34,539)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic		**HK(2.2) cents**	HK(3.7) cents
Diluted		**HK(2.2) cents**	HK(3.7) cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
LOSS FOR THE PERIOD	**(22,463)**	(34,539)
OTHER COMPREHENSIVE LOSS		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(5,200)**	842
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments designated at fair value through other comprehensive income	**(956)**	(1,204)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(6,156)**	(362)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(28,619)**	(34,901)
Attributable to:		
Owners of the parent	**(26,696)**	(34,710)
Non-controlling interests	**(1,923)**	(191)
	(28,619)	(34,901)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 18 December 2013. The Company's registered office address is second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman KY1-1103, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 2 July 2015.

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

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

In the opinion of the directors of the Company (the "**Directors**"), the immediate holding company and the ultimate holding company of the Company is Fortune Six Investment Ltd., a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

4. OPERATING SEGMENT INFORMATION

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

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

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customers

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

	Six months ended 30 June 2020 *HK$'000* (Unaudited)
Customer A	**46,913**

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

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

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

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

6. LOSS BEFORE TAX

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

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

8. INCOME TAX EXPENSE

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

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

Hong Kong profits tax has been provided at the rate of 8.25% and 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("**CIT**") at a rate of 25% on the taxable income. Preferential tax treatments were available for one (2019: one) of the Group's principal operating subsidiaries, Sky Light Electronics (Shenzhen) Limited, since it was recognised as High and New Technology Enterprises and entitled to a preferential tax rate of 15% during the reporting period.

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

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

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

9. DIVIDENDS

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

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

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

As anti-dilutive effect is resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts for the six months ended 30 June 2020 and 2019.

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

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

11. INVENTORIES

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

The movements of inventory provision are as follows:

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

12. TRADE RECEIVABLES

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

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

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

13. INTEREST-BEARING BANK BORROWINGS

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans — secured	**3.2~3.3**	**2020**	**7,044**	3.1~4.0	2020	16,678

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Analysed into:		
Within one year	**7,044**	16,678

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

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

All borrowings are denominated in United States dollars.

14. TRADE PAYABLES

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

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

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

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

15. COMMITMENTS

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

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

SCOPE OF WORK OF ERNST & YOUNG ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's interim condensed consolidated statement of financial position, interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income and the related notes thereto for the six months ended 30 June 2020 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 interim condensed consolidated financial statements for the period. 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, police cameras, video conference devices and other imaging products for various purposes. In particular, the Group is one of the leading digital imaging device and solutions providers for the home surveillance camera industry. Leveraging its decades of experience spanning a diverse range of digital imaging products, the Group differentiates itself from other manufacturers by offering both design-driven joint design manufacturing ("**JDM**") and original design manufacturing ("**ODM**") one stop solutions to customers.

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

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

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

JDM/ODM business

For 2020 Interim, the Group's turnover from the JDM/ODM business significantly dropped by approximately HK$108.0 million to HK$157.6 million from approximately HK$265.6 million for 2019 Interim. The decrease in revenue for 2020 Interim was primarily due to the following reasons:

(i) There were reduced orders and delayed shipments from certain customers arising from the lower demand of the consumer market as a direct consequence of the outbreak of coronavirus ("**COVID-19**") globally during the period.

(ii) The Company originally planned to shift most of the Group's production to its new Vietnam manufacturing facilities in the first half of 2020, however, the Chinese supervisors and engineers of the Group were not able to travel to Vietnam due to the entry restrictions implemented by the Vietnam government in response to the COVID-19 pandemic.

(iii) The temporary suspension of the manufacturing facilities of the Group and the temporary suspension of certain raw material suppliers in China and Vietnam, respectively, due to the COVID-19 prevention measures implemented by the relevant local government also affected the operation and supply of raw materials to the Group respectively in the first quarter of 2020.

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

Prospects

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

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

- Continue to develop innovative products and explore other potential product lines and business capitalizing on our extensive and in-depth technical know-how;

- Actively explore the market in Japan, Europe and Mainland China;

- Save cost by optimizing and improving the operations of our factories in China and Vietnam.

Financial review

Turnover

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

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

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

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

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

Cost of sales

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

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

Gross profit and gross profit margin

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

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

Other income and gains

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

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

Selling and distribution expenses

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

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

Administrative expenses

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

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

Research and development costs

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

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

Other expenses

Other expenses include principally impairment losses of assets.

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

Finance costs

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

Income tax expense

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

Net loss

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

Liquidity and capital resources

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	**29,466**	18,009
Net cash flows from/(used in) investing activities	**2,985**	(2,379)
Net cash flows used in financing activities	**(17,537)**	(6,749)
Net increase in cash and cash equivalents	**14,914**	8,881
Cash and cash equivalents at beginning of period	**106,899**	95,132
Effect of foreign exchange rate changes, net	**(5,651)**	1,894
Cash and cash equivalents at end of period	**116,162**	105,907

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

Net cash from investing activities for 2020 Interim was approximately HK$3.0 million. This mainly consisted of (i) payment of approximately HK$0.4 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; (ii) the gross proceeds from disposals of items of property, plant and equipment of approximately HK$3.0 million; and (iii) the interest received of approximately HK$0.4 million.

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

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

Borrowing and the pledge of assets

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

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

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

Gearing ratio

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

Capital expenditure

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

Off balance sheet transactions

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

Foreign exchange exposure and exchange rate risk

The Group has transactional currency exposure, which arises from sales in currencies other than the relevant operating units, that is, functional currencies. Approximately 95.2% and 80.7% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 53.8% and 70.7% of inventory costs were denominated in their functional currencies for 2019 Interim and 2020 Interim, respectively.

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

Events after the reporting period

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

Treasury policies

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

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

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

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

Employees and emoluments policy

As at 30 June 2020, the Group employed a total of 947 employees (31 December 2019:1,200). The staff costs of the Group, excluding directors' emoluments and any contributions to pension scheme, were approximately HK$42.8 million for 2020 Interim (2019 Interim: approximately HK$62.6 million), approximately HK$0.2 million (2019 Interim: reversed approximately HK$5.8 million) of which are the expenses for the Group's share option schemes. All of the Group's employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talents. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes.

Significant investments held

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

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

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

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

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

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

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

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

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

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, associates and joint ventures

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

Contingent liabilities

As at 30 June 2020, the Group had no significant contingent liabilities and no charges on Group assets.

Dividends

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

Financial position as at 30 June 2020

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

OTHER INFORMATION

Purchase, sale or redemption of listed securities

The Company is empowered by the applicable Companies Law, Cap 22 of the Cayman Islands and the articles of association of the Company to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during 2020 Interim.

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 2020 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.

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 2020 Interim.

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

Audit Committee

The Company established Audit Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial information and reporting process, risk management and internal control systems and effectiveness of internal audit function, to monitor scope of audit and nominate and monitor external auditors and provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, being Mr. Tse Yat Hong, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Tse Yat Hong currently serves as the chairman of the Audit Committee.

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

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement for 2020 Interim has been published on the HKEXnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.sky-light.com.hk). The interim report of the Company for the six months ended 30 June 2020 containing information required by the Listing Rules will be despatched to the Shareholders and published on the HKEXnews website of the Stock Exchange and the website of the Company in due course.

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

Hong Kong, 28 August 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 is 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.