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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS	Six months ended 30 June		CHANGE
	2021	2020	
	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	
REVENUE	317,228	157,568	101.3%
COST OF SALES	(259,372)	(125,354)	106.9%
GROSS PROFIT	57,856	32,214	79.6%
GROSS PROFIT MARGIN (%)	18.2%	20.4%	(2.2 p.p.t.)
LOSS FOR THE PERIOD	(7,992)	(22,463)	(64.4%)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT BASIC AND DILUTED (EXPRESSED IN HK\$ PER SHARE)	HK(0.9) cents	HK(2.2) cents	(59.1%)

The board (the “**Board**”) of directors (“**Directors**”) of Sky Light Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2021 (“**2021 Interim**”), together with the comparative figures for the six months ended 30 June 2020 (“**2020 Interim**”). The condensed consolidated interim financial statements for 2021 Interim have not been audited, but have been reviewed by the audit committee of the Company (the “**Audit Committee**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Note	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	5	317,228	157,568
Cost of sales		<u>(259,372)</u>	<u>(125,354)</u>
Gross profit		57,856	32,214
Other income and gains		4,276	8,901
Selling and distribution expenses		(15,858)	(13,325)
Administrative expenses		(23,458)	(24,260)
Research and development expenses		(25,198)	(22,942)
Other expenses		<u>(4,676)</u>	<u>(1,851)</u>
Loss from operations		(7,058)	(21,263)
Finance costs	6	<u>(934)</u>	<u>(1,200)</u>
Loss before tax		(7,992)	(22,463)
Income tax expense	7	<u>–</u>	<u>–</u>
Loss for the period	8	<u>(7,992)</u>	<u>(22,463)</u>
Attributable to:			
Owners of the Company		(8,176)	(20,540)
Non-controlling interests (“ NCI ”)		<u>184</u>	<u>(1,923)</u>
		<u>(7,992)</u>	<u>(22,463)</u>
Loss per share			
Basic	10	<u>HK(0.9) cents</u>	<u>HK(2.2) cents</u>
Diluted	10	<u>HK(0.9) cents</u>	<u>HK(2.2) cents</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	<u>(7,992)</u>	<u>(22,463)</u>
Other comprehensive income:		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value changes of equity investments designated at fair value through other comprehensive income ("FVTOCI")	280	(956)
<i>Item that will be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>3,611</u>	<u>(5,200)</u>
Other comprehensive income for the period, net of tax	<u>3,891</u>	<u>(6,156)</u>
Total comprehensive income for the period	<u><u>(4,101)</u></u>	<u><u>(28,619)</u></u>
Attributable to:		
Owners of the Company	(4,312)	(26,696)
NCI	<u>211</u>	<u>(1,923)</u>
	<u><u>(4,101)</u></u>	<u><u>(28,619)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021

		30 June	31 December
		2021	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Investment property		4,111	4,192
Property, plant and equipment		36,168	40,967
Right-of-use assets		31,384	34,080
Intangible assets		9,528	8,754
Equity investments designated at FVTOCI		24,667	24,387
Prepayments and other receivables		2,756	3,016
		<hr/>	<hr/>
Total non-current assets		108,614	115,396
		<hr/>	<hr/>
Current assets			
Inventories		239,266	147,924
Trade and factoring receivables	11	56,233	64,697
Prepayments and other receivables		31,623	23,566
Financial assets at fair value through profit or loss ("FVTPL")		5,022	5,022
Restricted and pledged bank deposits	12	3,556	4,498
Cash and cash equivalents		86,290	97,486
		<hr/>	<hr/>
Total current assets		421,990	343,193
		<hr/>	<hr/>
Current liabilities			
Trade payables	13	152,875	131,220
Other payables and accruals		94,294	62,101
Interest-bearing bank borrowings	14	36,853	12,003
Lease liabilities		12,379	12,300
		<hr/>	<hr/>
Total current liabilities		296,401	217,624
		<hr/>	<hr/>
Net current assets		125,589	125,569
		<hr/>	<hr/>
Total assets less current liabilities		234,203	240,965
		<hr/>	<hr/>

	30 June 2021	31 December 2020
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Lease liabilities	21,300	24,264
Deferred tax liabilities	871	871
	<hr/>	<hr/>
Total non-current liabilities	22,171	25,135
	<hr/>	<hr/>
Net assets	212,032	215,830
	<hr/> <hr/>	<hr/> <hr/>
Equity		
Equity attributable to owners of the Company		
Share capital	9,528	9,528
Reserves	203,770	207,779
	<hr/>	<hr/>
	213,298	217,307
	<hr/>	<hr/>
NCI	(1,266)	(1,477)
	<hr/>	<hr/>
Total equity	212,032	215,830
	<hr/> <hr/>	<hr/> <hr/>

NOTES

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 review 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

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosures required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange.

These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020. The accounting policies (including the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2020.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in these condensed consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2020. A number of new standards or amended standards are effective from 1 January 2021 but they do not have a material effect on the Group's 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	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
United States of America	214,361	90,565
Mainland China	32,487	24,039
European Union	60,184	29,500
Other countries/regions	10,196	13,464
	<u>317,228</u>	<u>157,568</u>

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

(b) *Non-current assets*

	30 June	31 December
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Mainland China	60,003	66,284
Hong Kong	4,522	5,087
Other countries/regions	19,422	19,638
	<u>83,947</u>	<u>91,009</u>

The non-current assets information 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:

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	158,725	N/A ¹
Customer B	42,623	N/A ¹
Customer C	N/A ¹	46,913

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Type of goods or services		
Sale of industrial products	311,162	157,568
Provision of manufacturing services	6,066	–
Total revenue from contracts with customers	317,228	157,568
Timing of revenue recognition		
Goods transferred at a point in time	317,228	157,568

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interests on:		
Bank borrowings	122	185
Lease liabilities	812	1,015
	<u>934</u>	<u>1,200</u>

7. INCOME TAX EXPENSE

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2020: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%).

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 (2020: 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% (2020: 21%), and also subject to the statutory applicable state corporate income tax at a rate of 7% (2020: 8.84%).

The Group's subsidiary in Britain is subject to corporate income tax at a rate of 19% (2020: 19%).

The Group's subsidiary in Vietnam is subject to corporate income tax at a rate of 20% (2020: 20%).

The Group has no tax charge for the period (2020: Nil).

8. LOSS FOR THE PERIOD

The Group's loss for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Cost of inventories sold	250,574	116,491
Depreciation of investment property	81	80
Depreciation of property, plant and equipment	8,193	11,940
Depreciation of right-of-use assets	7,481	7,196
Amortisation of intangible assets*	769	630
Direct operating expenses of investment properties that generate rental income	62	24
Research and development expenses	25,198	22,942
Short-term and low value lease payments	–	3
Employee benefit expense (excluding directors' and chief executive's remuneration):		
— Wages and salaries	50,800	40,268
— Retirement benefit scheme contributions	4,371	2,289
— Equity-settled share-based payments	256	194
	<u>55,427</u>	<u>42,751</u>
Allowance for inventories	8,798	8,863
Allowance for trade and factoring receivables	234	229
Allowance for prepayments and other receivables	–	1,685
Exchange losses/(gains), net	3,489	(571)
Loss/(gain) on disposal of property, plant and equipment	62	(1,139)
Gain on disposal of right-of-use assets	–	(36)

* The amortisation of software is included in “research and development expenses” and “administrative expenses” and the amortisation of other intangible assets is included in “selling and distribution expenses” in the condensed consolidated statement of profit or loss.

9. DIVIDEND

The directors do not recommend the payment of any interim dividend during the period (six months ended 30 June 2020: Nil).

10. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Loss		
Loss for the purpose of calculating basic and diluted loss per share	<u>(8,176)</u>	<u>(20,540)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	<u>952,739,455</u>	<u>952,739,455</u>

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 2021 and 2020.

11. TRADE AND FACTORING RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables	36,468	68,496
Allowance for doubtful debts	(3,239)	(3,799)
	<u>33,229</u>	<u>64,697</u>
Factoring receivables	23,799	–
Allowance for doubtful debts	(795)	–
	<u>23,004</u>	<u>–</u>
	<u>56,233</u>	<u>64,697</u>

The general credit terms of the Group granted to its customers range from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The Group has entered into receivable purchase arrangements with a bank for the factoring of trade receivables with a designated customer. As at 30 June 2021, trade receivables factored to the bank aggregated to HK\$23,799,000 (At 31 December 2020: Nil).

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	32,939	38,188
1 to 2 months	6,524	19,001
2 to 3 months	6,595	4,047
Over 3 months	10,175	3,461
	<u>56,233</u>	<u>64,697</u>

12. RESTRICTED AND PLEDGED BANK DEPOSITS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Restricted bank deposits	838	1,784
Pledged bank deposits	2,718	2,714
	<u>3,556</u>	<u>4,498</u>

The Group's pledged bank deposits represented deposits pledged to a bank to secure banking facilities granted to the Group as set out in note 14 to this announcement.

13. TRADE PAYABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade payables	152,875	131,220

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	70,078	48,403
1 to 2 months	10,713	34,184
2 to 3 months	23,044	14,867
Over 3 months	49,040	33,766
	<u>152,875</u>	<u>131,220</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 150 days.

14. INTEREST-BEARING BANK BORROWINGS

		30 June 2021	31 December 2020
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Bank loans — unsecured		–	714
Bank loans — secured	<i>(ii)</i>	21,325	11,289
Factoring loans — secured	<i>(iii)</i>	15,528	–
		<u>36,853</u>	<u>12,003</u>

The borrowings are repayable as follows:

Within one year	36,853	11,289
More than one year, but not exceeding two years	–	714
	<u>36,853</u>	<u>12,003</u>

Notes:

- (i) The Group's banking facilities amounting to HK\$46,291,000 (At 31 December 2020: HK\$23,000,000), of which HK\$36,853,000 (At 31 December 2020: HK\$11,289,000) had been utilised as at the end of the reporting period.
- (ii) The bank loans were secured by the pledge of the Group's life insurance policy and bank deposits as set out in note 12 to this announcement, personal guarantee executed by a controlling shareholder of the Company, corporate guarantees executed by a company controlled by the controlling shareholder of the Company, two subsidiaries of the Group and the Company respectively.
- (iii) Factoring loan of HK\$15,528,000 (At 31 December 2020: Nil) is secured by the pledge of the Group's trade receivables of HK\$15,528,000 (At 31 December 2020: Nil).
- (iv) The secured bank and factoring loans carry effective interest rates ranging from 1.3% to 1.6% (At 31 December 2020: 1.0% to 1.5%) per annum.
- (v) All borrowings are denominated in the US\$.

15. CAPITAL COMMITMENTS

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

	30 June 2021	31 December 2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Purchases of plant and machinery	<u>966</u>	<u>204</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in the sales, development and manufacture of home surveillance cameras, police cameras, video conference devices, 360-degree cameras, baby monitors, remote learning devices and other imaging products for various purposes. Leveraging its substantial experience in various digital imaging products, the Group sets itself apart from other manufacturers by providing customers with design-driven joint design manufacturing (“**JDM**”) and original design manufacturing (“**ODM**”) solutions.

As the production capacity of our Vietnam factory increases during 2021 Interim, the Group are also offering customers with original equipment manufacturing (“**OEM**”) solution.

For 2021 Interim, the Group’s turnover significantly increased by approximately HK\$159.7 million to HK\$317.2 million from approximately HK\$157.6 million for 2020 Interim.

We recorded a loss of about HK\$8 million for 2021 Interim, a decrease of about 64.4% compared with the 2020 Interim.

The improvement in financial performance is attributed to the following reasons:

- (i) The impact of coronavirus pandemic (the “**COVID-19**”) was much smaller for 2021 Interim.
- (ii) Our Group has continuously improved the operation process, especially our production in Vietnam factory.
- (iii) We have achieved positive results in optimizing our customer portfolio in the past two years.

For 2021 Interim, we still suffered from the shortage of semiconductor components due to the disruptions on global supply chain caused by COVID-19 and the cost increase caused by the shortage. In order to minimize the impact, we have made great effort to develop second component source.

Due to the travel restriction, we hired the local Vietnamese to undertake most of the management and technical work of our Vietnam factory. With the continuous improvement of their work quality, this helped us to fulfill the orders of American customers and significantly increase our sales revenue.

For 2021 Interim, our revenue mainly came from the manufacture of home surveillance cameras, police cameras, baby monitors and remote learning devices. These businesses are expected to continue growing in the second half of 2021.

Prospects

In the second half of 2021, we believe that the shortage of semiconductor chips and the impact of COVID-19 in Vietnam are the main challenges our business is facing. We will work closely with suppliers and actively negotiate with customers on prices and material preparation mechanisms to reduce the related risks.

In order to further expand our business, we will increase our production capacity in Vietnam from 150,000 units per month to 250,000 units from the fourth quarter of 2021.

In 2021, we will continue to optimize the Group's operation in order to provide efficient services to our customers. Due to the travel restrictions, we believe that the demand for video conferencing equipment will increase. Therefore, we will develop more of these products.

In order to improve our financial performance and achieve a profit turnaround as soon as possible, we will strive to increase market share and provide customers with high quality products and solutions through the following strategies.

- Continue to develop innovative products driven by the market.
- Actively explore the market of Japan, Europe and Mainland China.
- Strengthen our audio/video streaming technology to enhance our competitiveness.
- Optimize the Group's operation and provide efficient services to customers.

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:

	2021		2020		Revenue change
	HK\$'000 (Unaudited)	% of total revenue	HK\$'000 (Unaudited)	% of total revenue	
Sale of Products					
Home surveillance cameras	208,387	65.7%	38,488	24.4%	441.4%
Digital imaging products	56,092	17.7%	88,827	56.4%	(36.9%)
Other products	46,683	14.7%	30,253	19.2%	54.3%
SUB-TOTAL	311,162	98.1%	157,568	100.0%	97.5%
Manufacturing service income	6,066	1.9%	0	0%	
Total	<u>317,228</u>	<u>100.0%</u>	<u>157,568</u>	<u>100.0%</u>	<u>101.3%</u>

For 2021 Interim, the Group recorded a turnover of approximately HK\$317.2 million (2020 Interim: approximately HK\$157.6 million), representing a significant increase of approximately 101.3% as compared to 2020 Interim. This increase was mainly attributable to the significant rise in the shipment units of home surveillance cameras.

The Group sells its products mainly to customers in the US and the European Union and it is expected that the US and the European Union markets will continue to contribute the 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	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
United States of America	214,361	90,565
Mainland China	32,487	24,039
European Union	60,184	29,500
Other countries and areas	10,196	13,464
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Total	317,228	157,568
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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 2021 Interim, cost of sales of the Group amounted to approximately HK\$259.4 million (2020 Interim: approximately HK\$125.4 million), representing an increase of approximately 106.9% as compared to 2020 Interim, and amounted to approximately 81.8% (2020 Interim: approximately 79.6%) of its turnover for 2021 Interim. As the turnover increased more than doubled, the corresponding cost of sales has also increased more than doubled. The increase in the cost of raw materials was also affect the increase in cost of sales.

Gross profit and gross profit margin

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	317,228	157,568
Cost of sales	259,372	125,354
	<hr/>	<hr/>
Gross profit	57,856	32,214
Gross profit margin	18.2%	20.4%
	<hr/> <hr/>	<hr/> <hr/>

The Group recorded a gross profit of approximately HK\$57.9 million for 2021 Interim (2020 Interim: approximately HK\$32.2 million), representing an increase of approximately 79.6% as compared to 2020 Interim. The gross profit margin decreased from approximately 20.4% for 2020 Interim to approximately 18.2% for 2021 Interim. This decrease was mainly due to the increase in both cost of raw materials and the sales of home surveillance cameras which generated lower gross profit margin.

Other income and gains

Other income and gains mainly include (i) bank interest income; and (ii) government grants, which mainly consist of rewards and subsidies for research activities granted by the local government with no unfulfilled conditions or contingencies.

For 2021 Interim, other income and gains of the Group significantly decreased by approximately 52.0% to approximately HK\$4.3 million as compared to 2020 Interim, which was primarily attributable to a decrease of approximately HK\$3.3 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 2021 Interim, selling and distribution expenses of the Group slightly increased by approximately 19.0% to approximately HK\$15.9 million from approximately HK\$13.3 million for 2020 Interim, mainly due to the increase of marketing, exhibition and advertising costs of approximately HK\$1.1 million for 2021 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 2021 Interim, administrative expenses of the Group slightly decreased by approximately 3.3%. The decrease was mainly due to the Group's stringent cost control during 2021 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 2021 Interim, the Group recorded research and development costs of approximately HK\$25.2 million, which increased by approximately 9.8% from approximately HK\$22.9 million for 2020 Interim. The increase was mainly due to the increase of salaries and benefits of the Group's research and development and product planning staff of approximately HK\$3.1 million for 2021 Interim.

Other expenses

Other expenses include principally (i) exchange loss arising mainly from fluctuations in exchange rate 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 2021 Interim, other expenses of the Group increased to approximately HK\$4.7 million from approximately HK\$1.9 million for 2020 Interim. The increase was mainly due to exchange losses increased by approximately HK\$3.5 million.

Finance costs

For 2021 Interim, the finance costs of the Group decreased to approximately HK\$0.9 million (2020 Interim: approximately HK\$1.2 million), representing a decrease by approximately 22.2% as compared to 2020 Interim. The decrease was mainly due to interest on leasing decreased by approximately HK\$0.2 million.

Income tax expense

For 2021 Interim, there was no income tax expense of the Group due to the loss for the period (2020 Interim: Nil).

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK\$8.0 million for 2021 Interim (attributable to non-controlling interests was a profit of approximately HK\$0.2 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:

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash flows (used in)/from operating activities	(28,813)	29,466
Net cash flows (used in)/from investing activities	(2,432)	2,985
Net cash flows from/(used in) financing activities	17,222	(17,537)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(14,023)	14,914
Cash and cash equivalents at beginning of period	97,486	106,899
Effect of foreign exchange rate changes, net	2,827	(5,651)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	86,290	116,162
	<hr/> <hr/>	<hr/> <hr/>

Net cash used in operating activities for 2021 Interim was approximately HK\$28.8 million, which primarily reflected (i) the adjusted loss before tax of approximately HK\$8.0 million; (ii) the increase in inventories of approximately HK\$91.3 million; (iii) the decrease in trade receivables of approximately HK\$8.2 million; (iv) the increase in trade payables of approximately HK\$21.7 million; and (v) the increase in other payables and accruals of approximately HK\$32.2 million.

Net cash used in investing activities for 2021 Interim was approximately HK\$2.4 million. This mainly consisted of (i) payment of approximately HK\$3.2 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; and (ii) the interest received of approximately HK\$0.7 million.

Net cash from the financing activities for 2021 Interim was approximately HK\$17.2 million, which was mainly reflected (i) the net loans of bank borrowing of approximately HK\$24.8 million; (ii) the principal portion of lease payments approximately HK\$7.5 million; and (iii) interest paid of approximately HK\$0.1 million.

The Group's cash and cash equivalents were mainly denominated in US dollar ("US\$"), Hong Kong dollar ("HK\$"), Vietnamese Dong ("VN\$") and Renminbi ("RMB") as at 30 June 2021.

Borrowings and the pledge of assets

The Group's banking facilities amounting to approximately HK\$46.3 million as at 30 June 2021 (At 31 December 2020: approximately HK\$23.0 million), of which approximately HK\$36.9 million (At 31 December 2020: approximately HK\$11.3 million) had been utilised as at the end of the reporting period.

The bank loans were secured by the pledge of the Group's life insurance policy and bank deposits, personal guarantee executed by a controlling shareholder of the Company, corporate guarantees executed by a company controlled by the controlling shareholder of the Company, two subsidiaries of the Group and the Company respectively. The factoring loan was secured by the pledge of the Group's trade receivables.

The Group's bank borrowings are all denominated in US\$, the secured bank and factoring loans carry effective interest rates ranging from 1.3% to 1.6% (At 31 December 2020: 1.0% to 1.5%) per annum. All borrowings are repayable within one year.

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank borrowings) by total equity as at the end of each period. The Group's gearing ratio as at 31 December 2020 and 30 June 2021 was approximately 5.6% and approximately 17.4% respectively. The increase in gearing ratio was primarily due to significant increase in outstanding interest-bearing bank borrowings.

Capital expenditure

During 2021 Interim, the Group invested approximately HK\$3.4 million (2020 Interim: approximately HK\$0.6 million) in fixed assets and intangible assets.

Off balance sheet transactions

During 2021 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 80.7% and 86.5% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 70.7% and 63.9% of inventory costs were denominated in their functional currencies for 2020 Interim and 2021 Interim, respectively.

During 2021 Interim, 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 2021 Interim (31 December 2020: Nil). In addition, the Group did not have any foreign currency net investments which have been hedged by currency borrowing and other hedging investments.

Events after the reporting period

There are no significant events occurring after the reporting period of 2021 Interim up to the date of this announcement.

Treasury policies

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

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

The Group has an experienced management team and strict procedures in place to ensure the wealth management products are purchased in compliance with its internal policies and requirements under the 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 2021 Interim, the Group did not have any investment under its treasury policies.

Employees and emoluments policy

As at 30 June 2021, the Group employed a total of 1,512 employees (31 December 2020: 1,482). The staff costs of the Group, excluding directors’ emoluments and any contributions to pension scheme, were approximately HK\$55.4 million for 2021 Interim (2020 Interim: approximately HK\$42.8 million), approximately HK\$0.3 million (2020 Interim: approximately HK\$0.2 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. (“**Kandao**”) 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 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.

During 2021 Interim, Kandao has strengthen the product promotion and turn losses into profits. It is expected that there will be a steady development trend in the year.

As at 30 June 2021, the investment accounted for 4.6% of the Group’s total assets and the fair value of this investment held by the group was approximately HK\$24.7 million (31 December 2020: approximately HK\$24.4 million) presenting HK\$0.3 million unrealized profit as at 30 June 2021. No dividend was received from this investment during 2021 interim (2020 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.

As at 30 June 2021, there is no investment held by the Group with a value of 5% or more of the Company’s total assets.

Future plans for material investments or capital assets

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

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 2021 Interim.

Contingent liabilities

As at 30 June 2021, the Group had no significant contingent liabilities.

Dividend

The Board does not recommend the payment of interim dividend for 2021 Interim (2020 Interim: Nil).

Financial position as at 30 June 2021

As at 30 June 2021, the Group's total equity was approximately HK\$212.0 million (31 December 2020: approximately HK\$215.8 million), total assets amounted to approximately HK\$530.6 million (31 December 2020: approximately HK\$458.6 million) and total liabilities stood at approximately HK\$318.6 million (31 December 2020: approximately HK\$242.8 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 2021 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 2021 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 by Directors

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 2021 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 Audit Committee consists of three members, namely Mr. Tse Yat Hong (chairman of the Audit Committee), Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all of them are independent non-executive Directors.

The Group’s interim results for the six months ended 30 June 2021 have been reviewed by all members of the Audit Committee. Based on such review, the Audit Committee was satisfied that the Group’s unaudited interim results were prepared in accordance with applicable accounting standards. The Audit Committee does not have any disagreement with the accounting treatment adopted by the Company.

RSM Hong Kong was appointed as auditor of the Company on the annual general meeting dated 26 May 2021.

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021 have not been audited but have been reviewed by RSM Hong Kong in accordance with Hong Kong Standard on Review Engagements 2400 (Revised) “Engagements to Review Historical Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement for 2021 Interim has been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.sky-light.com.hk>) respectively.

The interim report of the Company for the six months ended 30 June 2021 containing all the relevant information required by the Listing Rules and the relevant laws and regulations will be despatched to the Shareholders and available on above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our stakeholders and business partners for their ongoing support, and our Directors, management and employees for their dedication and contribution to our progress.

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

Hong Kong, 27 August 2021

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.