

INTERIM REPORT

2018

Sky Light Holdings Limited
天彩控股有限公司

Stock Code **3882**

Incorporated in the Cayman Islands with limited liability



INTERIM REPORT

2018



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Financial Highlights

	Six months ended 30 June		
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	Change
REVENUE	558,786	306,028	82.6%
LOSS FOR THE PERIOD	(237,950)	(166,353)	43.0%
LOSS DIVIDED BY BUSINESS UNIT			
— Loss for the period from ION360 business	(179,500)	(122,847)	46.1%
— Loss for the period from ODM/JDM business	(58,450)	(43,506)	34.3%
	(237,950)	(166,353)	43.0%
FURTHER BREAKDOWN			
— LOSS ATTRIBUTABLE TO ODM/JDM BUSINESS			
— Impairment loss of trade receivable and other receivable from ODM/JDM business	(33,845)	(5,430)	523.3%
— Operating loss from ODM/JDM business	(24,605)	(38,076)	–35.4%
	(58,450)	(43,506)	34.3%

Corporate Information

Board of Directors

Executive Directors

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Lu Yongbin

Non-executive Directors

Professor Huang Erwin Steve
Ms. Tang Kam Sau
Mr. Wu Yongmou

Independent Non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Committees of the Board

Audit Committee

Mr. Tse Yat Hong (*Chairman*)
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Remuneration Committee

Mr. Tse Yat Hong (*Chairman*)
Mr. Tang Wing Fong Terry
Mr. Chan Tsu Ming Louis

Nomination Committee

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Tse Yat Hong
Mr. Chan Tsu Ming Louis

Authorized Representatives

Mr. Tang Wing Fong Terry
Mr. Lu Yongbin

Company Secretary

Mr. Lu Yongbin

Registered Office

Conyers Trust Company (Cayman) Limited
P.O. Box 10008, Willow House
Cricket Square, Grand Cayman
KY1-1001, Cayman Islands

Head Office, Headquarters and Principal Place of Business in the People's Republic of China ("China" or the "PRC")

No. 6 Building
Jinbi Industrial Zone
Huangtian Community, Bao'an District
Shenzhen
PRC

Principal Place of Business in Hong Kong

1009 Kwong Sang Hong Centre
151-153 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

Auditors

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Hong Kong Legal Adviser

Mayer Brown
16th-19th Floors, Prince's Building
10 Charter Road
Central
Hong Kong

Corporate Information

Cayman Islands Principal Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
P.O. Box 10008, Willow House
Cricket Square, Grand Cayman
KY1-1001, Cayman Islands

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
13th Floor Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Hongkong and Shanghai Banking
Corporation Limited
Level 10 HSBC Main Building
1 Queen's Road Central
Hong Kong

Stock Code

3882

Company Website Address

www.sky-light.com.hk

Management Discussion and Analysis

Business review

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

Since its establishment, the Group’s core operations have mainly focused on imaging products. The Group has successfully shifted from positioning as a traditional imaging products manufacturer to an action camera vendor, and further introduced home surveillance cameras starting in 2014. It has successfully launched 360-degree cameras in 2016 and introduced security lights and doorbell cameras in 2018.

ION360 business

Due to the disappointing results of ION360 business, the Group substantially reduced the number of ION360 staff in April 2018 and implemented cost reduction initiatives. After careful consideration, the Group has made impairment provision for all the finished goods stock of ION360. Meanwhile, the Group is actively negotiating with independent third parties for the disposal of ION360 business.

ODM/JDM business

For the six months ended 30 June 2018 (“2018 Interim”), the Group’s turnover from the ODM/JDM business significantly increased by approximately HK\$271.0 million to approximately HK\$557.7 million from approximately HK\$286.7 million for the same period in 2017. The increase was primarily caused by the substantial increase in the shipment volume of home surveillance camera products to the Group’s key customers as compared with the same period in 2017 (“2017 Interim”).

For 2018 Interim, the shipment volume of digital imaging products of ODM/JDM business remained the same as the corresponding period in 2017, with increase in sales of 360-degree cameras and decrease in sales of police cameras.

Home surveillance cameras of the Group’s ODM/JDM business have become its major revenue source following the substantial increase in the shipment volume, and contributed approximately 71% of the Group’s total revenue for 2018 Interim. Meanwhile it is also expected that the sales of new models of digital imaging products to existing and new customers will steadily pick up in the second half of 2018 or later.

Prospects

The Group considers that, the second half of the year will be challenging with the uncertainties in the business environment brought about by the potential trade war between the People’s Republic of China (“China”) and the United States of America (the “US”) in the short term. Cameras as consumption goods are mainly manufactured in China. Unifying tariff will raise the domestic selling price in US, and affect our sales to a certain extent. The Group is actively negotiating with its business partners in Asia for production cooperation.

Management Discussion and Analysis

In spite of the above, the Group firmly believes that intelligent imaging products and solutions will be widely used and their demand will increase continuously and the Group's management is confident in our future. Thus, the Group continues its efforts to increase market share and deliver high-quality products and solutions to its customers by pursuing the following strategies:

- Continue to develop innovative products by further investing in product planning and research and development capabilities
- Strengthen customer relationships and further expand its customer base
- Actively explore the market in Mainland China
- Improve operation and production efficiencies and optimise the organisational structure

Financial review

Turnover

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

	Six months ended 30 June				
	2018 HK\$'000 (Unaudited)	% of total revenue	2017 HK\$'000 (Unaudited)	% of total revenue	Revenue change
ODM/JDM BUSINESS					
Home surveillance cameras	396,896	71.0%	124,232	40.6%	219.5%
Digital imaging products	130,298	23.3%	138,823	45.3%	-6.1%
Others	30,513	5.5%	23,626	7.7%	29.2%
SUB-TOTAL	557,707	99.8%	286,681	93.7%	94.5%
ION360 BUSINESS	1,079	0.2%	19,347	6.3%	-94.4%
TOTAL	558,786	100.0%	306,028	100.0%	82.6%

Management Discussion and Analysis

For 2018 Interim, the Group recorded a turnover of approximately HK\$1.1 million from the ION360 business (2017 Interim: approximately HK\$19.3 million), representing a substantial decrease of approximately 94.4% as compared to 2017 Interim. The decrease was mainly due to the performance of ION360 business did not meet the expected market response.

For 2018 Interim, the Group recorded a turnover of approximately HK\$557.7 million from the ODM/JDM business (2017 Interim: approximately HK\$286.7 million), representing a significant increase of approximately 94.5% as compared to 2017 Interim. This increase was mainly attributable to the significant increase in the shipment units of home surveillance cameras.

The Group sells its products mainly to customers in the US and expects the US market will continue to account for the majority of its revenue in the foreseeable future. The significant increase in the sales in the US in 2018 Interim as compared to the same period in 2017 was due to the increase in the sales to the Group's key customers, which are located in the US. The following table sets out the breakdown of revenue by location of customers for the periods indicated:

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
US	377,011	233,016
Mainland China	111,676	26,827
European Union	56,567	32,470
Other countries and areas	13,532	13,715
Total	558,786	306,028

Cost of sales

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

For 2018 Interim, cost of sales of the Group amounted to approximately HK\$605.2 million (2017 Interim: approximately HK\$240.5 million), representing an increase of approximately 151.6% as compared to 2017 Interim, and amounted to approximately 108.3% (2017 Interim: approximately 78.6%) of its turnover during the period. This increase was mainly attributable to a substantial increase in the shipment units and impairment provision of approximately HK\$132.4 million for the inventories of ION360.

Management Discussion and Analysis

Gross profit and gross profit margin

ION360 business	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	1,079	19,347
Cost of sales	(135,672)	(37,521)
Gross profit	(134,593)	(18,174)
Gross profit margin	-12,473.9%	-93.9%

The Group's ION360 business recorded a negative gross profit margin due to the impairment provision for inventories.

ODM/JDM business	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	557,707	286,681
Cost of sales	469,496	202,941
Gross profit	88,211	83,740
Gross profit margin	15.8%	29.2%

The Group recorded a gross profit of approximately HK\$88.2 million from the ODM/JDM business for 2018 Interim (2017 Interim: approximately HK\$83.7 million), representing an increase of approximately 5.3% as compared to 2017 Interim. The increase was mainly due to the increase in the shipping volume. The gross profit margin decreased from approximately 29.2% for 2017 Interim to approximately 15.8% for 2018 Interim, mainly due to the increase of cost of materials and the decrease of selling price of certain products.

Other income and gains

Other income and gains include mainly (i) bank interest income; (ii) government grants, which mainly consist 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 2018 Interim, other income and gains of the Group slightly decreased by approximately 17.1% to approximately HK\$10.5 million as compared to 2017 Interim, which was primarily attributable to a decrease of approximately HK\$6.2 million in government grants related to the research and development activities of the Group.

Management Discussion and Analysis

Selling and distribution expenses

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

Selling and distribution expenses significantly reduced from approximately HK\$93.8 million in 2017 Interim to approximately HK\$22.4 million in 2018 Interim. Decrease in expense for 2018 Interim was mainly attributable to the reduction in the majority of cost for ION360 business.

Administrative expenses

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

For 2018 Interim, administrative expenses increased by approximately 62.6% to approximately HK\$101.7 million (2017 Interim: approximately HK\$62.6 million). The increase was primarily due to the increase of rental expense of leased factory incurred from the relocation of factory in Shenzhen and the bad debt provision for trade receivables.

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 2018 Interim, the Group recorded research and development costs of approximately HK\$64.4 million, which decreased by approximately 11.2% from approximately HK\$72.5 million for 2017 Interim. This decrease was mainly attributable to the substantial decrease of fees such as certification expense after the shrinking of ION360 business.

Other expenses

Other expenses include principally (i) loss of sales from slow-moving materials; and (ii) disposal loss of fixed assets.

For 2018 Interim, other expenses decreased to approximately HK\$6.5 million from approximately HK\$12.3 million for 2017 Interim. Other expenses for 2018 Interim were mainly used for the clearance of slow-moving materials of approximately HK\$4.3 million.

Finance costs

For 2018 Interim, the finance costs of the Group were approximately HK\$0.9 million (2017 Interim: approximately HK\$0.8 million), representing a slight increase of approximately 13.7% as compared to 2017 Interim. This increase was attributable to an increase in average borrowing rate of US\$ from certain banks in Hong Kong.

Management Discussion and Analysis

Income tax expense

For 2018 Interim, the income tax expense of the Group was approximately HK\$3.1 million (2017 Interim: approximately HK\$2.7 million), representing an increase of approximately HK\$0.4 million as compared to 2017 Interim, which was due to the reversal of deferred tax asset.

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK\$238.0 million for 2018 Interim with a net loss margin of approximately 42.6%, of which loss for ODM/JDM business was approximately HK\$58.5 million and loss for ION360 business was approximately HK\$179.5 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	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Net cash flows used in operating activities	(88,736)	(23,933)
Net cash flows used in investing activities	(334)	(33,364)
Net cash flows used in financing activities	(28,159)	(93,375)
Net decrease in cash and cash equivalents	(117,229)	(150,672)
Cash and cash equivalents at beginning of period	203,129	480,436
Effect of foreign exchange rate, net	(3,655)	9,655
Cash and cash equivalents at end of period	82,245	339,419

Net cash used in operating activities for 2018 Interim was approximately HK\$88.7 million, which primarily reflected (i) the adjusted loss before tax of approximately HK\$19.3 million; and (ii) prepayments, deposits and other receivables of approximately HK\$61.3 million.

Net cash used in investing activities for 2018 Interim was approximately HK\$0.3 million, which mainly reflected (i) payment of approximately HK\$13.4 million for purchases of property, plant and equipment and intangible assets; and (ii) proceeds from disposal of financial assets at fair value through other comprehensive income of approximately HK\$11.5 million.

Management Discussion and Analysis

Net cash used in financing activities for 2018 Interim was approximately HK\$28.2 million, which mainly reflected (i) net repayment of bank borrowings of approximately HK\$79.9 million as the Group utilised less interest-bearing bank borrowings to settle trade payables; and (ii) the non-interest-bearing shareholder's loan of approximately HK\$52.6 million.

The Group's cash and cash equivalents were mainly denominated in US\$, HK\$ and RMB as at 30 June 2018.

Borrowing and the pledge of assets

The aggregate amount of the Group's banking facilities as at 31 December 2017 and 30 June 2018 was approximately HK\$275.8 million and approximately HK\$10.0 million, respectively. As at the relevant dates, total bank loans in the amounts of approximately HK\$89.3 million and approximately HK\$9.4 million were outstanding, respectively, which were repayable within one year. The Group utilised less interest-bearing bank borrowings to settle trade payables due to the shrinking of the bank facilities limit.

The Group's bank and other borrowings are all denominated in US\$ and bear fixed interest rates. As at 30 June 2018, the annual interest rate of bank borrowings ranged from 2.6% to 3.3% (31 December 2017: 1.8% to 2.9%).

Further details of the Group's bank borrowings are set out in note 19 to the interim condensed financial statements.

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank and other borrowings) by total equity as at the end of each period. The Group's gearing ratio as at 31 December 2017 and 30 June 2018 was approximately 15.7% and approximately 2.8%, respectively. The decrease in gearing ratio was primarily due to significant decrease in interest-bearing bank borrowings remaining outstanding as at 30 June 2018 following the shrinking of purchase scale.

Capital expenditure

During 2018 Interim, the Group invested approximately HK\$13.4 million (2017 Interim: approximately HK\$4.8 million) in fixed assets and intangible assets, which was mainly used for the expense for the relocation of factory in Shenzhen.

Off balance sheet transactions

During 2018 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 89.1% and 85.1% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 40.3% and 47.0% of inventory costs were denominated in their functional currencies for 2017 Interim and 2018 Interim, respectively.

The Group used forward currency contracts to manage currency risk. However, due to the fluctuation in exchange rate during the period, the Group did not enter into any forward currency contracts during 2018 Interim and had no outstanding forward currency contracts as at 30 June 2018 (31 December 2017: Nil).

Management Discussion and Analysis

Events after the reporting period

There are no significant events occurring after the reporting period of 2018 Interim up to the date of this report.

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

Employees and emoluments policy

As at 30 June 2018, the Group employed a total of 1,819 employees (31 December 2017: 1,889). The staff costs of the Group, excluding directors’ emoluments and any contributions to pension scheme, were approximately HK\$85.6 million for 2018 Interim (2017 Interim: approximately HK\$102.6 million), approximately HK\$2.3 million (2017 Interim: approximately HK\$11.0 million) of which are expenses for the Group’s share option schemes and share award scheme. All of the Group’s employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talent. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme on 29 May 2015 and the share option scheme on 12 June 2015, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes. In addition to the share option schemes, the Group also adopted the share award scheme on 20 September 2016 to: (i) recognise the contributions by certain employees and to provide them with incentives in order to retain talent; and (ii) attract suitable personnel for the Group’s further development.

Management Discussion and Analysis

Significant investments held

As at 30 June 2018, the Group held unlisted equity investments of approximately HK\$28.9 million (31 December 2017: approximately HK\$38.3 million). These unlisted equity investments were made in start-up companies which have synergies with the Group's business.

Application of global offering proceeds

The Company was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 July 2015 (the "Listing Date"). The net proceeds raised from the global offering were approximately HK\$613.0 million after deduction of related expenses. The Company applied proceeds from the listing as follows:

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

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

Use of proceeds	Actual net proceeds HK\$ million	Actual utilisation up to 30 June 2018 HK\$ million	Balance as at 30 June 2018 HK\$ million
Purchase of land or completed properties or offices and purchase of production machinery	71.8	71.8	–
Marketing expenditures	138.9	138.9	–
Possible mergers and acquisitions	116.5	116.5	–
Research and development expenditures	156.4	156.4	–
Working capital and general corporate purposes (including purchases of raw materials)	129.4	129.4	–
	613.0	613.0	–

Management Discussion and Analysis

Commitment

As at 30 June 2018, the Group's operating lease and capital commitment amounted to approximately HK\$102.8 million (31 December 2017: approximately HK\$45.6 million) and approximately HK\$1.3 million (31 December 2017: approximately HK\$1.4 million), respectively. The increase in lease commitment was due to a new lease agreement entered into in relation to the relocation of the Group's Shenzhen plant to the new site.

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 report.

Material acquisitions and disposals of subsidiaries and associated companies

The Company intends to dispose the ION360 business as and when suitable opportunity arises, in light of the significant loss incurred in ION360 business and the Company's strategy to manage its finance in a cautious and prudent manner.

Contingent liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

Dividends

The Board does not recommend the payment of interim dividend for 2018 Interim (2017 Interim: Nil).

Other Information

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2018, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company ("Shares"), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Nature of interest	Number of shares ⁽¹⁾	Interest in underlying shares of share option ⁽¹⁾	Approximate percentage of total issued shares in the Company
Tang Wing Fong Terry ⁽²⁾	Founder of a discretionary trust and beneficial owner	482,793,102 shares (L)	–	56.33%
Wu Yongmou ⁽³⁾	Founder of a discretionary trust and beneficial owner	57,202,000 shares (L)	–	6.67%
Tang Kam Sau ⁽⁴⁾	Interest in a controlled corporation	39,192,000 shares (L)	–	4.57%
Lu Yongbin ⁽⁵⁾	Beneficial owner	3,595,800 shares (L)	462,000 shares (L)	0.47%
Professor Huang Erwin Steve ⁽⁶⁾	Beneficial owner	–	2,750,000 shares (L)	0.32%
Mr. Tse Yat Hong ⁽⁶⁾	Beneficial owner	–	750,000 shares (L)	0.09%
Cheung Wah Keung ⁽⁶⁾	Beneficial owner	–	750,000 shares (L)	0.09%
Chan Tsu Ming Louis ⁽⁶⁾	Beneficial owner	–	750,000 shares (L)	0.09%

Other Information

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Notes:

- (1) The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.
- (2) The disclosed interest represents (i) the interest in 417,717,600 Shares held by Fortune Six Investment Ltd., which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited), and (ii) his personal interest in 65,075,502 Shares.
- (3) The disclosed interest represents (i) the interest in 56,931,000 Shares held by YongWeiDa Investment Limited, which is wholly owned by Wing Lung Bank (Trustee) Limited as trustee of the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited) and (ii) his personal interest in 271,000 Shares.
- (4) Ms. Tang Kam Sau is the sole shareholder of Uphigh Global Limited, which holds 39,192,000 Shares. By virtue of the SFO, she is deemed to be interested in Uphigh Global Limited's interest in the Company by virtue of the SFO.
- (5) The disclosed interest represents Mr. Lu Yongbin's (i) his personal interest in 3,595,800 Shares, and (ii) 462,000 unvested share options granted by the Company.
- (6) The disclosed interest is unvested share options granted by the Company to each director.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares

To the best knowledge of the Directors, as at 30 June 2018, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name of shareholder	Capacity/nature of interest	Number of shares ⁽¹⁾	Approximate percentage of total issued shares in the Company
Wing Lung Bank (Trustee) Limited ⁽²⁾	Trustee	479,020,600 shares (L)	55.89%
Antopex Limited ⁽²⁾	Nominee for another person	474,648,600 shares (L)	55.38%
Best One International Limited ⁽²⁾⁽³⁾	Interest of controlled corporation	417,717,600 shares (L)	48.73%
Fortune Six Investment Ltd. ⁽²⁾⁽³⁾	Beneficial owner	417,717,600 shares (L)	48.73%
YongDingDa Investment Limited ⁽²⁾⁽⁴⁾	Interest of controlled corporation	56,931,000 shares (L)	6.64%
YongWeiDa Investment Limited ⁽²⁾⁽⁴⁾	Beneficial owner	56,931,000 shares (L)	6.64%

Other Information

Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Notes:

- (1) The letter "L" denotes a person's long position in our shares or shares of the relevant Group member.
- (2) Wing Lung Bank (Trustee) Limited as trustee holds 479,020,600 Shares by virtue of the SFO as follows:
 - (i) 417,717,600 Shares held by Fortune Six Investment Ltd., which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited);
 - (ii) 56,931,000 Shares held by YongWeiDa Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited); and
 - (iii) 4,372,000 Shares held by Wing Lung Bank (Trustee) Limited as trustee for the share award scheme of the company.
- (3) The interest of Best One International Limited and Fortune Six Investment Ltd. was also disclosed as the interest of Mr. Tang Wing Fong Terry in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".
- (4) The interest of YongDingDa Investment Limited and YongWeiDa Investment Limited was also disclosed as the interest of Mr. Wu Yongmou in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".

Save as disclosed above, as at 30 June 2018, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

Directors' Interests in Contracts of Significance

Save as disclosed in the note 29 to the interim condensed financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the period under review.

Directors' Interest in Competing Business

During 2018 Interim and up to the date of this report, none of the Directors has any interest in a business apart from the business which competes or is likely to compete, either directly or indirectly, with the Group's business.

Directors' Rights to Acquire Shares or Debenture

Save as disclosed herein, at no time from 1 January 2018 to the date of this report was the Group a party to any arrangements to enable the Directors of the Group to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

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 2018 Interim.

Pre-IPO Share Option Scheme and Share Option Scheme

Pre-IPO Share Option Scheme

A Pre-IPO Share Option Scheme was conditionally adopted on 29 May 2015 and will expire on 2 July 2019. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain of our employees, executives and officers made or may have made to the growth of the Group and/or the listing of Shares on the Stock Exchange. The eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers of our Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of our Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to our Company and/or any of the subsidiaries.

The total number of Shares subject to the Pre-IPO Share Option Scheme is 21,024,000 Shares, representing approximately 2.45% of the issued shares as at the date of this report. No further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange. A total of 43 eligible participants were granted options under the Pre-IPO Share Option Scheme on 29 May 2015 ("Pre-IPO SOS Grant Date"). The top participant was granted 3,600,000 shares under the scheme.

HK\$1.00 was payable by each Grantee as consideration for grant of the options. The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme is HK\$0.83. The board of directors of the Company determined the exercise price of the Pre-IPO Share Options by taking into account of, among other matters, (i) the contribution of the grantees, being employees of the Group, made or likely to make to the growth of the business of the Group; and (ii) the impact of the Pre-IPO Share Options on the financial results of the Group.

The Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme of the Company may be exercised by each grantee in the following manner:

- (a) approximately 33% of the option shall become vested and exercisable on the 1st anniversary date of the Listing Date (the "1st Vesting Date"), and the exercise period in respect thereof shall commence on the 1st Vesting Date and end on the day immediately before the 1st anniversary date of the 1st Vesting Date (both dates inclusive);
- (b) approximately 33% of the option shall become vested and exercisable on the 2nd anniversary date of the Listing Date (the "2nd Vesting Date"), and the exercise period in respect thereof shall commence on the 2nd Vesting Date and end on the 1st anniversary date of the 2nd Vesting Date (both dates inclusive); and
- (c) approximately 34% of the option shall become vested and exercisable on the 3rd anniversary date of the Listing Date (the "3rd Vesting Date"), and the exercise period in respect thereof shall commence on the 3rd Vesting Date and end on the 1st anniversary date of the 3rd Vesting Date (both dates inclusive).

Other Information

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Pre-IPO Share Option Scheme *(Continued)*

The following table discloses details of the Company's share options held by the employees and movements in such holding during 2018 Interim:

Name	As at 1 January 2018	Exercised	Cancelled	Lapsed	As at 30 June 2018	Approximate percentage of the total number of Shares in issue as at the date of this report
Employees	6,430,000	59,000	–	91,000	6,280,000	0.73%

The valuation of options granted under the Pre-IPO Share Option Scheme was conducted based on the binomial model with the following assumptions:

	At grant date
(i) Expected volatility	39.79–47.04% per year
(ii) Expected life of options	2.1–4.1
(iii) Average risk-free interest rate	0.44–0.87% per year
(iv) Expected dividend yield	3.3% per year
(v) Estimated rate of leaving service	0% per year

The expected suboptimal early exercise multiple for the grantees is assumed to be 220% times the exercise price. The post-vesting exit rate for the grantees is assumed to be nil per year.

The Group recognised the total expense of HK\$885,000 (2017 Interim: 1,575,000) during 2018 Interim in relation to Pre-IPO Share Option Scheme granted by the Company.

Other Information

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Share Option Scheme

A share option scheme (the "Share Option Scheme") was conditionally adopted on 12 June 2015, which became effective on the Listing Date. The key terms of the scheme are set out below:

- (1) The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have made or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:
 - (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
 - (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

"Eligible Participants" refers to:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
 - (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;
 - (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
 - (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
 - (a) contribution to the development and performance of our Group;
 - (b) quality of work performed for our Group;
 - (c) initiative and commitment in performing his/her duties; and
 - (d) length of service or contribution to our Group.
- (2) The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

Other Information

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Share Option Scheme *(Continued)*

- (3) The maximum entitlement of each Eligible Participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.
- (4) An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.
- (5) An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.
- (6) Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period ending 12 June 2025.
- (7) The exercise price is determined by the directors of the Company at their discretion and will not be lower than the higher of: (a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the 5 business days immediately preceding the offer date; (c) the nominal value of the Company's share.

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 38,413,000 Shares, representing approximately 4.48% of the total number of Shares in issue.

The Company has granted the following share option under the Share Option Scheme:

Date of grant	27 July 2015 <small>(Note 1)</small>	15 September 2016 <small>(Note 2)(Note 3)</small>	1 December 2016 <small>(Note 4)</small>	18 May 2017 <small>(Note 5)</small>	26 April 2018 <small>(Note 6)</small>
(i) Share Options granted as at the date of grant or 1 January 2018	2,000,000	11,544,000	11,400,000	15,000,000	12,522,000
Share Options exercised during the period	–	–	–	–	–
Share Options cancelled during the period	–	–	–	–	–
Share Options lapsed during the period	–	879,000	6,800,000	3,210,000	–
(ii) Share Options outstanding as at 30 June 2018	2,000,000	10,665,000	4,600,000	11,790,000	12,522,000
Approximate percentage of the total number of Shares in issue as at the date of this report	0.23%	1.24%	0.54%	1.38%	1.46%
(iii) Exercise price of the Share Options	HK\$3.46	HK\$1.70	HK\$1.986	HK\$2.206	HK\$0.93
(iv) Closing price immediately before the date of grant	HK\$3.46	HK\$1.56	HK\$2.04	HK\$2.18	HK\$0.93

Other Information

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Share Option Scheme *(Continued)*

Notes:

- (1) On 27 July 2015, share options to subscribe for a total of 2,000,000 Shares were granted to Professor Huang Erwin Steve, a non-executive Director, pursuant to the Share Option Scheme. Maximum of 50% of the share options of the Company ("Share Options") shall become vested and exercisable from 27 July 2016 to 26 July 2019 (both dates inclusive). The remaining 50% of the Share Options shall become vested and exercisable from 27 July 2017 to 26 July 2020 (both dates inclusive). None of the above Share Options was exercised or cancelled or lapsed from the date of grant up to 30 June 2018 and therefore the balance of the outstanding share options as of 30 June 2018 remains the same as 27 July 2015.
- (2) On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme.
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2017 and shall be exercisable at any time during the period commencing on 15 September 2017 and ending on 14 September 2022 (both dates inclusive);
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2018 and shall be exercisable at any time during the period commencing on 15 September 2018 and ending on 14 September 2023 (both dates inclusive); and
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2019 and shall be exercisable at any time during the period commencing on 15 September 2019 and ending on 14 September 2024 (both dates inclusive).
- (3) Among the Share Options granted on 15 September 2016, 2,250,000 Share Options were granted to the following Directors of the Company, details of which are as follows:

Name of Directors	Position	Share Options as at 1 January 2018	Share Options exercised during the period	Share Options cancelled during the period	Share Options lapsed during the period	Share Options Outstanding as at 30 June 2018	Approximate percentage of shareholding upon full exercise of Share Options granted
Professor Huang Erwin Steve	Non-executive director and external consultant	750,000	-	-	-	750,000	0.09%
Chan Tsu Ming Louis	Independent non-executive director	750,000	-	-	-	750,000	0.09%
Cheung Wah Keung	Independent non-executive director	750,000	-	-	-	750,000	0.09%

Other Information

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Share Option Scheme *(Continued)*

Notes: *(Continued)*

- (4) On 1 December 2016, 9,900,000 Share Options were granted to certain employees of the Group as “Employee Options” and 10,000,000 Share Options were granted to certain parties who contribute or have contributed to the Group, including an agent developing the Group’s sales channels and members of a supplier of the Group as “Contributor Options”.

For the Share Options granted to employees who are not senior management:

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2017 and shall be exercisable at any time during the period commencing on 1 December 2017 and ending on 30 November 2022 (both dates inclusive);
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2018 and shall be exercisable at any time during the period commencing on 1 December 2018 and ending on 30 November 2023 (both dates inclusive); and
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2019 and shall be exercisable at any time during the period commencing on 1 December 2019 and ending on 30 November 2024 (both dates inclusive).

For the Share Options granted to persons who are senior management:

- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2018 and shall be exercisable at any time during the period commencing on 31 January 2018 and ending on 30 January 2023 (both dates inclusive);
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2019 and shall be exercisable at any time during the period commencing on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); and
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2020 and shall be exercisable at any time during the period commencing on 31 January 2020 and ending on 30 January 2025 (both dates inclusive).

For the Contributor Options granted to members of a supplier of the Group:

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2017 and shall be exercisable at any time during the period commencing on 1 December 2017 and ending on 30 November 2022 (both dates inclusive);
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2018 and shall be exercisable at any time during the period commencing on 1 December 2018 and ending on 30 November 2023 (both dates inclusive); and
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2019 and shall be exercisable at any time during the period commencing on 1 December 2019 and ending on 30 November 2024 (both dates inclusive).

Other Information

Pre-IPO Share Option Scheme and Share Option Scheme *(Continued)*

Share Option Scheme *(Continued)*

Notes: *(Continued)*

(4) *(Continued)*

For the Contributor Options granted to an agent developing the Group's sales channels:

- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Contributor Options so granted to him/her shall become vested on 31 January 2018 and shall be exercisable at any time during the period commencing on 31 January 2018 and ending on 30 January 2023 (both dates inclusive);
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Contributor Options so granted to him/her shall become vested on 31 January 2019 and shall be exercisable at any time during the period commencing on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); and
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Contributor Options so granted to him/her shall become vested on 31 January 2020 and shall be exercisable at any time during the period commencing on 31 January 2020 and ending on 30 January 2025 (both dates inclusive).

(5) On 18 May 2017, share options to subscribe for a total of 15,000,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme. Among the said Share Options granted, 210,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and a company secretary of the Company.

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2018 and shall be exercisable at any time during the period commencing on 18 May 2018 and ending on 17 May 2023 (both dates inclusive);

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2019 and shall be exercisable at any time during the period commencing on 18 May 2019 and ending on 17 May 2024 (both dates inclusive); and

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2020 and shall be exercisable at any time during the period commencing on 18 May 2020 and ending on 17 May 2025 (both dates inclusive).

(6) On 26 April 2018, share options to subscribe for a total of 12,522,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme. Among the said Share Options granted, 252,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and a company secretary of the Company. 750,000 Shares were granted to Mr. Tse Yat Hong, an Independent non-executive director of the Company.

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 26 April 2019 and shall be exercisable at any time during the period commencing on 26 April 2019 and ending on 25 April 2024 (both dates inclusive);

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 26 April 2020 and shall be exercisable at any time during the period commencing on 26 April 2020 and ending on 25 April 2025 (both dates inclusive); and

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 26 April 2021 and shall be exercisable at any time during the period commencing on 26 April 2021 and ending on 25 April 2026 (both dates inclusive).

Other Information

Pre-IPO Share Option Scheme and Share Option Scheme (Continued)

Share Option Scheme (Continued)

Notes: (Continued)

The valuation of options granted under the Share Option Scheme was conducted based on the binomial model with the following assumptions::

At grant date	26 April 2018	18 May 2017	15 September 2016 & 1 December 2016	27 July 2015
(i) Expected volatility	59.03–62.75% per year	57.63–61.27% per year	45.69–65.81% per year	45.69–46.80% per year
(ii) Expected life of options	6.0–8.0	6.0–8.0	6.0–8.17	4.0–5.0
(iii) Average risk-free interest rate	2.11–2.13% per year	1.16–1.22% per year	1.44–2.09% per year	1.47–1.66% per year
(iv) Expected dividend yield	5.74% per year	5.32% per year	3.93%–5.32% per year	3.93% per year
(v) Estimated rate of leaving service	27.50% per year	25% per year	0%–25% per year	0% per year

The Group recognised expense of HK\$2,255,000 and reversed expense of HK\$2,361,000 (2017 Interim: recognised expense of HK\$6,423,000) during 2018 Interim in relation to Share Option Scheme granted by the Company.

Share Award Scheme

On 20 September 2016, the Company adopted a share award scheme (“Share Award Scheme”) with major terms and details set out below. Unless otherwise stated, terms defined in the Company’s announcement shall have the same meaning herein:

(1) Purpose

The purposes of the Scheme are:

- (i) to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and
- (ii) to attract suitable personnel for further development of the Group.

(2) Duration

Subject to any early termination as may be determined by the Board pursuant to the Scheme Rules, the Scheme shall be valid and effective from 20 September 2016 to the date the last of the Awarded Shares has been vested and transferred to the relevant Selected Employee or has lapsed in accordance with the Scheme Rules provided that no Award shall be made on or after the 10th anniversary date of 20 September 2016.

(3) Administration

- (i) The Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules and the terms of the Trust Deed.
- (ii) The Trustee shall during the trust period hold the Trust Shares, the Awarded Shares, the related income, the returned shares and the residual cash in accordance with the terms of the Trust Deed.
- (iii) The Board may from time to time issue implementation and operation manual for the Scheme.

Other Information

Share Award Scheme *(Continued)*

(4) Scheme Limit

- (i) The Board shall not make any further award of Awarded Shares which will result in the number of Shares awarded by the Board under the Scheme exceeding 10 per cent (10%) of the issued share capital of the Company as at 20 September 2016.
- (ii) The maximum number of Shares which may be awarded to a Selected Employee under the Scheme shall not exceed 2.5 per cent (2.5%) of the issued share capital of the Company as at 20 September 2016.

(5) Operation of Scheme

Subject to the Scheme Rules, the Board may, from time to time, at its absolute discretion select any Employee for participation in the Scheme as a Selected Employee and determine the number of the Awarded Shares for each of them and notify the Trustee of its decision. In determining the number of Awarded Shares for a Selected Employee, the Board may take into consideration matters including without limitation, the general financial condition of the Group and the rank and performance of the relevant Selected Employee.

The Board is entitled to impose any conditions (including without limitation, the performance, operating and financial targets and other criteria, if any, to be satisfied by the Selected Employee) as it deems appropriate in its sole and absolute discretion before the Awarded Shares can vest. In addition, Awarded Shares held by the Trustee upon Trust and which are referable to a Selected Employee shall vest to that Selected Employee in accordance with a vesting schedule determined at the discretion of the Board, provided that the Selected Employee shall remain at all times after the grant of the Award and on each relevant Vesting Date(s) as Employee.

Subject to the Scheme Rules and compliance with the Listing Rules, the articles of association of the Company, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and any other applicable laws and regulations, the Board may, at any time and from time to time at its absolute discretion having regards to, inter alia, the financial position of the Company, the cash position of the Company and the market price of the Shares at the relevant time, either before or after identification of the Selected Employee(s) (i) cause the Company to issue and allot such number of new Shares to the Trustee as Trust Shares, or (ii) cause the Trustee to purchase the Shares on the market as Trust Shares from the Company's funds.

In the event that the grant of an Award to any connected person of the Company constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, the Company will comply with the applicable reporting, announcement and/or independent shareholders' approval requirements.

Other Information

Share Award Scheme *(Continued)*

(6) Lapse

Save as provided in the Scheme Rules, in the event that prior to or on the Vesting Date in respect of a Selected Employee, (i) the relevant Selected Employee died, (ii) the relevant Selected Employee ceases to be an Employee, (iii) the relevant subsidiary of the Company by which a Selected Employee is employed ceases to be a subsidiary of the Company (or of a member of the Group), or (iv) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, the Award shall, unless the Board otherwise agrees, lapse forthwith.

In the event that prior to or on the Vesting Date (i) a Selected Employee is found to be an Excluded Employee, or (ii) a Selected Employee fails to return duly executed transfer documents prescribed by the Trustee for the relevant Awarded Shares within the stipulated period, the relevant part of the Award made to such Selected Employee shall, unless the Board otherwise agrees, lapse forthwith.

(7) Restrictions

No Award shall be made by the Board and no Shares or payment (as the case may be) shall be delivered or made to the Trustee and no instructions to acquire Shares and allot new Shares shall be given to the Trustee under the Scheme where any Director is in possession of inside information in relation to the Group or where dealings in Shares by Directors are prohibited under any code or requirement of the Listing Rules and all applicable laws from time to time.

The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules. Up to 30 June 2018, a total of 6,558,000 Awarded Shares, which were purchased from the secondary market, were granted to an employee of the Group under the above Share Award Scheme. Details of the Share Award Schemes during the period are set out in note 25 to the interim condensed consolidated financial statements.

According to the rules of the Share Award Scheme, the Board may exercise its discretion to instruct the Trustee to subscribe for new Shares from the Company pursuant the general mandate or a specific mandate to be approved by shareholders in general meeting, in particular, at a time when the Board is of the view that the purchase of old Shares may have a significant impact to the secondary market and may not be in the interest of the shareholders as far as the trading prices and trading volume are concerned before or after identification of the Selected Employees to be allocated with Awarded Shares under the Scheme Rules.

Nevertheless, the Board confirms that it has no current intention to instruct the Trustee to subscribe for new Shares from the Company before identification of the Selected Employees to be allocated with Awarded Shares under the Scheme Rules.

Other Information

Audit Committee

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

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the unaudited interim results and interim report for 2018 Interim.

Ernst & Young, the external auditors of the Company, have reviewed the interim financial information of the Group for the 2018 Interim.

Remuneration Committee

The Company established a remuneration committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration of the Directors and senior management. The remuneration committee consists of three members, being Mr. Tse Yat Hong (independent non-executive director), Mr. Tang Wing Fong Terry and Mr. Chan Tsu Ming Louis (independent non-executive director). Mr. Tse Yat Hong currently serves as the chairman of the remuneration committee.

Nomination Committee

The Company established a nomination committee on 12 June 2015 with its written terms of reference by reference to the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board on the selection of candidates for any Director and senior management positions. The nomination committee comprises three members, being Mr. Tang Wing Fong Terry, Mr. Chan Tsu Ming Louis (independent non-executive director) and Mr. Tse Yat Hong (independent non-executive director). Mr. Tang Wing Fong Terry currently serves as the chairman of the nomination committee.

Corporate Governance Practices

The Company believes that maintaining high standards of corporate governance is the foundation for effective management and successful business growth. The Company is committed to developing and maintaining robust corporate governance practices to safeguard the interests of Shareholders and to enhance corporate value, accountability and transparency of the Company.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Listing Rules as the basis of the Company’s corporate governance practices. Throughout the period from 1 January 2018 up to the date of this report, the Company has complied with all applicable code provisions of the CG Code except for code provision A.2.1.

Other Information

Corporate Governance Practices *(Continued)*

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman of the Board (“Chairman”) and chief executive of the Company are performed by Mr. Tang Wing Fong Terry, the Company has deviated from the code provision A.2.1. The Board considers that having Mr. Tang Wing Fong Terry acting as both the Chairman and the chief executive officer of the Company will provide a strong and consistent leadership to the Company and allow for more effective planning and management for the Group. In view of Mr. Tang’s extensive experience in the industry, personal profile and critical role in the Group and its historical development, the Board considers that it is beneficial to the business prospects of the Group that Mr. Tang continues to act as both the Chairman and the chief executive officer of the Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

Model Code For Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 the Directors and they have confirmed that they have complied with the Model Code throughout the period from the 1 January 2018 up to the date of this report.

The Company has also established written guidelines on terms no less exacting than the Model Code (the “Employees Written Guidelines”), for securities transactions by relevant employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during 2018 interim. In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its directors and relevant employees in advance.

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors’ knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules from 1 January 2018 up to the date of this report.

Other Information

Changes in Information of Directors

Pursuant to Rule 13.51B (1) of the Listing Rules, the changes in information of Directors subsequent to the date of 2017 annual report of the Company are set out below:

Directors	Details of changes
Dr. Cheung Wah Keung	Appointed as the independent non-executive director of PanAsialum Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2078), with effect from 22 March 2018

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

Hong Kong
29 August 2018

Report on Review of Interim Condensed Consolidated Financial Statements



To the board of directors of Sky Light Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Sky Light Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 33 to 76, which comprise the interim condensed consolidated statement of financial position as at 30 June 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months then ended, and the explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “*Interim Financial Reporting*” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

29 August 2018

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
REVENUE	5	558,786	306,028
Cost of sales		(605,168)	(240,462)
Gross profit		(46,382)	65,566
Other income and gains	5	10,537	12,703
Selling and distribution expenses		(22,427)	(93,786)
Administrative expenses		(101,690)	(62,558)
Research and development costs		(64,402)	(72,520)
Other expenses		(6,510)	(12,285)
Finance costs	7	(896)	(788)
Share of losses of associates		(3,096)	–
LOSS BEFORE TAX	6	(234,866)	(163,668)
Income tax expense	8	(3,084)	(2,685)
LOSS FOR THE PERIOD		(237,950)	(166,353)
Attributable to:			
Owners of the parent		(237,950)	(166,353)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		HK(27.9) cents	HK(19.7) cents
Diluted		HK(27.9) cents	HK(19.7) cents

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
LOSS FOR THE PERIOD		(237,950)	(166,353)
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments	16	–	206
Exchange differences on translation of foreign operations		(2,401)	12,298
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of financial assets at fair value through other comprehensive income	16	(2,835)	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		(5,236)	12,504
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(243,186)	(153,849)
Attributable to:			
Owners of the parent		(243,186)	(153,849)

Interim Condensed Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	96,800	107,447
Prepaid land lease payments	13	2,657	2,705
Intangible assets	12	10,400	11,801
Investments in associates		18,594	21,690
Available-for-sale investments	16	–	16,631
Financial assets at fair value through other comprehensive income	16	10,313	–
Prepayments and other receivables	17	9,261	6,263
Deferred tax assets	22	–	3,099
Total non-current assets		148,025	169,636
CURRENT ASSETS			
Inventories	14	250,604	414,653
Trade receivables	15	152,982	114,423
Available-for-sale investments	16	–	10,805
Financial assets at fair value through other comprehensive income	16	2,781	–
Due from a related party	29	828	835
Prepayments, deposits and other receivables	17	88,830	71,947
Cash and cash equivalents	18	82,245	203,129
Total current assets		578,270	815,792
CURRENT LIABILITIES			
Interest-bearing bank borrowings	19	9,370	89,265
Trade and bills payables	20	241,900	228,423
Other payables and accruals	21	54,479	79,159
Contract liabilities		16,741	–
Tax payable		17,065	17,150
Due to related parties	29	3,631	296
Total current liabilities		343,186	414,293

Interim Condensed Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
NET CURRENT ASSETS		235,084	401,499
TOTAL ASSETS LESS CURRENT LIABILITIES		383,109	571,135
NON-CURRENT LIABILITIES			
Due to a related party	29	52,583	–
Deferred tax liabilities	22	871	871
Total non-current liabilities		53,454	871
Net assets		329,655	570,264
EQUITY			
Equity attributable to owners of the parent			
Share capital	23	8,572	8,571
Shares held for Share Award Scheme		(9,333)	(9,333)
Reserves	26	330,416	571,026
Total equity		329,655	570,264

Tang Wing Fong Terry
Director

Lu Yongbin
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the parent									
	Share capital HK\$'000 (note 23)	Shares held for Share Award Scheme HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Share award reserve HK\$'000	Share option reserve HK\$'000	Reserve fund HK\$'000	Retained profits HK\$'000	Exchange fluctuation reserve HK\$'000	Total equity HK\$'000
At 1 January 2018	8,571	(9,333)	699,995	148,702	3,789	25,431	37,050	(327,706)	(16,235)	570,264
Loss for the period	-	-	-	-	-	-	-	(237,950)	-	(237,950)
Other comprehensive loss for the period:										
Changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	(2,835)	-	-	-	-	-	(2,835)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(2,401)	(2,401)
Total comprehensive loss for the period	-	-	-	(2,835)	-	-	-	(237,950)	(2,401)	(243,186)
Issue of shares by exercise of share options (note 23(a))	1	-	118	-	-	(70)	-	-	-	49
Equity-settled share option arrangements (note 24)	-	-	-	-	-	779	-	-	-	779
Equity-settled share award scheme arrangements (note 25)	-	-	-	-	1,749	-	-	-	-	1,749
At 30 June 2018 (unaudited)	8,572	(9,333)	700,113*	145,867*	5,538*	26,140*	37,050*	(565,656)*	(18,636)*	329,655

Note:

* These reserve accounts comprise the consolidated reserves of HK\$330,416,000 in the interim condensed consolidated statement of financial position as at 30 June 2018 (31 December 2017: HK\$571,026,000).

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the parent									
	Share capital HK\$'000	Shares held for Share Award Scheme HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Share award reserve HK\$'000	Share option reserve HK\$'000	Reserve fund HK\$'000	Retained profits HK\$'000	Exchange fluctuation reserve HK\$'000	Total equity HK\$'000
At 1 January 2017	8,493	(14,000)	684,805	148,297	641	17,065	37,050	184,866	(43,904)	1,023,313
Loss for the period	-	-	-	-	-	-	-	(166,353)	-	(166,353)
Other comprehensive income for the period:										
Changes in fair value of available-for-sale investments	-	-	-	206	-	-	-	-	-	206
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	12,298	12,298
Total comprehensive loss for the period	-	-	-	206	-	-	-	(166,353)	12,298	(153,849)
Issue of shares by exercise of share options	44	-	8,889	-	-	(5,259)	-	-	-	3,674
Equity-settled share option arrangements	-	-	-	-	-	7,998	-	-	-	7,998
Equity-settled share award scheme arrangements	-	-	-	-	3,847	-	-	-	-	3,847
Final 2016 dividend declared and paid	-	-	-	-	-	-	-	(27,272)	-	(27,272)
At 30 June 2017 (unaudited)	8,537	(14,000)	693,694	148,503	4,488	19,804	37,050	(8,759)	(31,606)	857,711

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(234,866)	(163,668)
Adjustments for:			
Finance costs	7	896	788
Share of losses of associates		3,096	–
Interest income	5	(273)	(1,367)
Write-down of inventories to net realisable value	6	144,016	7,750
Depreciation	6	17,451	15,606
Amortisation of prepaid land lease payments	6	48	48
Amortisation of intangible assets	6	1,326	3,744
Loss on disposal of items of property, plant and equipment	6	1,975	16
Impairment of prepayments and other receivables	6	8,200	5,430
Impairment of trade receivables	6	36,264	–
Equity-settled share option expense	24	779	7,998
Equity-settled share award scheme expense	25	1,749	3,847
		(19,339)	(119,808)
Decrease/(increase) in inventories		21,699	(37,275)
(Increase)/decrease in trade and bills receivables		(38,559)	170,766
Decrease in amounts due from a related party		7	380
(Increase)/decrease in prepayments, deposits and other receivables		(61,347)	33,807
Increase/(decrease) in trade and bills payables		13,477	(68,745)
Increase/(decrease) in amounts due to related parties		3,335	(99)
Increase in contract liabilities		16,741	–
Decrease in other payables and accruals		(24,680)	(1,106)
Cash used in operations		(88,666)	(22,080)
Tax paid		(70)	(1,853)
Net cash flows used in operating activities		(88,736)	(23,933)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(13,408)	(5,720)
Gross proceeds from disposals of items of property, plant and equipment		1,294	1,434
Disposal of financial assets at fair value through other comprehensive income		11,507	–
Purchase of available-for-sale investments		–	(30,445)
Interest received		273	1,367
Net cash generated used in investing activities		(334)	(33,364)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		43,382	75,334
Loans from the shareholder		52,583	–
Repayments of bank loans		(123,277)	(144,323)
Interest paid		(896)	(788)
Dividends paid		–	(27,272)
Issue of shares by exercise of share options	23(a)	49	3,674
Net cash flows used in financing activities		(28,159)	(93,375)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		203,129	480,436
Effect of foreign exchange rate, net		(3,655)	9,655
CASH AND CASH EQUIVALENTS AT END OF PERIOD		82,245	339,419
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	82,245	293,332
Cash and cash equivalents as stated in the statement of financial position	18	82,245	293,332
Investment deposits with original maturity of less than three months when acquired		–	46,087
Cash and cash equivalents as stated in the statement of cash flows		82,245	339,419

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

1. Corporate Information

The Company is a limited liability company incorporated in the Cayman Islands on 18 December 2013. The Company's registered office address is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 July 2015.

The Company is an investment holding company. During the 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 statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

During the period, the Group suffered a loss of HK\$237,950,000, and had net current assets of HK\$235,084,000 as at 30 June 2018. The directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting period; and (ii) obtaining the new bank loans within the next twelve months and the unutilized banking facilities. 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.

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of this interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of the following new standards, interpretations and amendments as of 1 January 2018, noted below:

HKFRS 9	<i>Financial instruments</i>
HKFRS 15	<i>Revenue from contracts with customers and the related amendments</i>
HK(IFRIC) — Int 22	<i>Foreign currency transactions and advance consideration</i>
Amendments to HKFRS 2	<i>Classification and measurement of share-based payment transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial instruments with HKFRS 4</i>
	<i>Insurance contracts</i>
Amendments to HKAS 28	<i>Investments in associates and joint ventures clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice</i>
	<i>Transfers of investment property</i>
Amendments to HKAS 40	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	
<i>Annual Improvements 2014–2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

The application of the above new and amendments to HKFRSs in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements, except for the adoption of new standards as set out below.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

3. Changes in Accounting Policies and Disclosures *(Continued)*

HKFRS 15 Revenue from Contracts with Customers (Continued)

(a) Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

(b) Presentation and disclosure requirements

As required for the condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 4 for the disclosure on disaggregated revenue.

The application of HKFRS 15 in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

HKFRS 9 Financial Instruments

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

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

3. Changes in Accounting Policies and Disclosures *(Continued)*

HKFRS 9 Financial Instruments (Continued)

The following adjustments were made to the consolidated statement of financial position at the date of initial application, 1 January 2018. The effect of adopting HKFRS 9 is, as follows:

	Note	Under HKAS 39	Reclassification	Under HKFRS 9
Financial assets — at fair value through other comprehensive income (“FVOCI”)				
Available-for-sale investments	(a)	27,436	(27,436)	–
Financial Assets — FVOCI	(a)	–	27,436	27,436

The adoption of HKFRS 9 does not impact the interim condensed consolidated statement of profit or loss and other comprehensive income and the interim condensed consolidated statement of cash flows for the six month ended 30 June 2017.

(a) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss “FVPL”, amortised cost, or fair value through other comprehensive income “FVOCI”. The classification is based on two criteria: the Group’s business model for managing the assets; and whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the “SPPI criterion”).

The new classification and measurement of the Group’s debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group’s trade and other receivables, and loans included under other non-current financial assets.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Currently the Group does not hold any assets of this category.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

3. Changes in Accounting Policies and Disclosures *(Continued)*

HKFRS 9 Financial Instruments (Continued)

(a) Classification and measurement *(Continued)*

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under IAS 39, the Group's equity instruments were classified as available-for-sale financial assets.
- Financial assets at FVPL comprise derivative instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment on whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the fact and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

3. Changes in Accounting Policies and Disclosures *(Continued)*

HKFRS 9 Financial Instruments (Continued)

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other receivables included in current and non-current financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment exceeds the credit terms. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to accumulated losses.

In preparing these interim condensed consolidated financial statements, the significant judgements and estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated financial statements for the year ended 31 December 2017, except those due to accounting policy change disclosed above.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

4. Operating Segment Information

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

- (a) the ODM/JDM business segment focuses on the sales, development and manufacturing of imaging products which mainly comprises home surveillance cameras, 360-degree cameras and other digital imaging products; and
- (b) the ION360 business segment engages in the sales, development of cameras under its own brands.

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

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

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

For the six months ended 30 June 2018 (unaudited)	ODM/JDM business HK\$'000	ION360 business HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	557,707	1,079	558,786
Intersegment sales	26,768	–	26,768
	584,475	1,079	585,554
<i>Reconciliation:</i>			
Elimination of intersegment sales	(26,768)	–	(26,768)
Revenue	557,707	1,079	558,786
Segment results	(49,676)	(179,500)	(229,176)
<i>Reconciliation:</i>			
Elimination of intersegment results	(5,690)	–	(5,690)
Loss before tax	(55,366)	(179,500)	(234,866)

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

4. Operating Segment Information *(Continued)*

For the six months ended 30 June 2017 (unaudited)	ODM/JDM business HK\$'000	ION360 business HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	286,681	19,347	306,028
Intersegment sales	27,638	–	27,638
	314,319	19,347	333,666
<i>Reconciliation:</i>			
Elimination of intersegment sales	(27,638)	–	(27,638)
Revenue	286,681	19,347	306,028
Segment results	(38,892)	(123,394)	(162,286)
<i>Reconciliation:</i>			
Elimination of intersegment results	(1,382)	–	(1,382)
Loss before tax	(40,274)	(123,394)	(163,668)

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

4. Operating Segment Information *(Continued)* *Geographical information*

(a) Revenue from external customers

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
United States of America	377,011	233,016
Mainland China	111,676	26,827
European Union	56,567	32,470
Other countries and areas	13,532	13,715
	558,786	306,028

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

(b) Non-current assets

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
	Mainland China	129,153
Hong Kong	7,270	10,421
Other countries	1,289	1,481
	137,712	149,906

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

4. Operating Segment Information *(Continued)*

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 2018 HK\$'000 (Unaudited)
Customer A	251,216
Customer B	55,002
Customer C	45,872

5. Revenue, Other Income and Gains

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

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue		
Sale of goods	558,786	306,028
Other income and gains		
Bank interest income	273	1,367
Government grants: Related to income*	4,720	10,908
Exchange gains	4,676	–
Others	868	428
	10,537	12,703

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

6. Loss before Tax

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

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Cost of inventories sold		461,152	232,712
Depreciation	11	17,451	15,606
Amortisation of prepaid land lease payments	13	48	48
Amortisation of intangible assets*	12	1,326	3,744
Research and development costs		64,402	72,520
Minimum lease payments under operating leases		14,012	9,505
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		76,220	82,856
Pension scheme contributions		7,167	8,692
Equity-settled share option expense		507	7,202
Equity-settled share award scheme expense		1,749	3,847
		85,643	102,597
Write-down of inventories to net realisable value		144,016	7,750
Impairment of prepayments and other receivables		8,200	5,430
Impairment of trade receivables		36,264	–
Exchange (gains)/losses, net		(4,676)	4,983
Loss on disposal of items of property, plant and equipment		1,975	16
Bank interest income	5	(273)	(1,367)
Government grants	5	(4,720)	(10,908)

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

Notes to the Interim Condensed Consolidated Financial Statements

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7. Finance Costs

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interest on bank loans	896	788

8. Income Tax Expense

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

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

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

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatments were available to two (2017: two) of the Group's principal operating subsidiaries, Sky Light Electronics (Shenzhen) Limited and Sky Light Technology (Heyuan) Limited, since they were recognised as High and New Technology Enterprises and they were entitled to a preferential tax rate of 15% for the six months ended 30 June 2018 and 2017.

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current — Mainland China	—	242
Current — Hong Kong	11	914
Deferred	3,073	1,529
Total tax charge for the period	3,084	2,685

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

9. Dividends

The directors do not recommend the payment of any interim dividend during the period (six months ended 30 June 2017: 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 852,752,000 (six months ended 30 June 2017: 844,084,000) 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 2018 and 2017.

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Earnings		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculations	(237,950)	(166,353)
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	852,752,000	844,084,000
Basic loss per share	HK(27.9) cents	HK(19.7) cents
Diluted loss per share	HK(27.9) cents	HK(19.7) cents

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

11. Property, Plant and Equipment

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
30 June 2018 (Unaudited)						
At 1 January 2018:						
Cost	7,109	10,843	191,807	3,574	27,764	241,097
Accumulated depreciation	(1,108)	(5,623)	(102,531)	(2,363)	(22,025)	(133,650)
Net carrying amount	6,001	5,220	89,276	1,211	5,739	107,447
At 1 January 2018, net of accumulated depreciation	6,001	5,220	89,276	1,211	5,739	107,447
Additions	–	4,382	4,851	–	1,086	10,319
Disposals	–	–	(3,105)	–	(164)	(3,269)
Depreciation provided during the period (note 6)	(157)	(875)	(11,840)	(388)	(4,191)	(17,451)
Exchange realignment	(31)	(102)	(417)	1	303	(246)
At 30 June 2018, net of accumulated depreciation	5,813	8,625	78,765	824	2,773	96,800
At 30 June 2018:						
Cost	7,067	15,260	189,136	3,546	27,379	242,388
Accumulated depreciation	(1,254)	(6,635)	(110,371)	(2,722)	(24,606)	(145,588)
Net carrying amount	5,813	8,625	78,765	824	2,773	96,800

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

11. Property, Plant and Equipment *(Continued)*

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
31 December 2017 (Audited)						
At 1 January 2017						
Cost	6,789	13,888	171,401	3,480	23,354	218,912
Accumulated depreciation	(767)	(7,060)	(76,830)	(1,766)	(11,102)	(97,525)
Net carrying amount	6,022	6,828	94,571	1,714	12,252	121,387
At 1 January 2017, net of accumulated depreciation						
	6,022	6,828	94,571	1,714	12,252	121,387
Additions	-	112	8,907	-	2,859	11,878
Disposals	-	(820)	(622)	-	(32)	(1,474)
Depreciation provided during the year	(299)	(1,250)	(19,905)	(598)	(9,680)	(31,732)
Exchange realignment	278	350	6,325	95	340	7,388
At 31 December 2017, net of accumulated depreciation	6,001	5,220	89,276	1,211	5,739	107,447
At 31 December 2017:						
Cost	7,109	10,843	191,807	3,574	27,764	241,097
Accumulated depreciation	(1,108)	(5,623)	(102,531)	(2,363)	(22,025)	(133,650)
Net carrying amount	6,001	5,220	89,276	1,211	5,739	107,447

Certain of the Group's banking facilities were secured by the Group's building with carrying values of HK\$4,587,000 as at 30 June 2018 (31 December 2017: Nil).

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying value of HK\$3,978,000 as at 30 June 2018 (31 December 2017: HK\$4,135,000) have not yet been issued by the relevant Mainland China authorities. The Group is in the process of obtaining these certificates.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

12. Intangible Assets

	Trademarks HK\$'000	Technology licencing agreement HK\$'000	Software HK\$'000	Total HK\$'000
30 June 2018 (Unaudited)				
Cost at 1 January 2018, net of accumulated amortisation and impairment	245	44	11,512	11,801
Additions	–	–	96	96
Disposals	(5)	–	–	(5)
Amortisation provided during the period (note 6)	(33)	(44)	(1,249)	(1,326)
Exchange realignment	1	–	(167)	(166)
At 30 June 2018, net of accumulated amortisation and impairment	208	–	10,192	10,400
At 30 June 2018:				
Cost	24,733	4,076	15,598	44,407
Accumulated amortisation	(3,454)	(3,395)	(5,406)	(12,255)
Impairment	(21,071)	(681)	–	(21,752)
Net carrying amount	208	–	10,192	10,400
31 December 2017 (Audited)				
Cost at 1 January 2017, net of accumulated amortisation	23,512	3,565	10,435	37,512
Additions	631	–	1,205	1,836
Amortisation provided during the year	(3,028)	(2,876)	(1,399)	(7,303)
Impairment during the year	(21,071)	(681)	–	(21,752)
Exchange realignment	201	36	1,271	1,508
At 31 December 2017, net of accumulated amortisation and impairment	245	44	11,512	11,801
At 31 December 2017:				
Cost	24,737	4,076	15,669	44,482
Accumulated amortisation	(3,421)	(3,351)	(4,157)	(10,929)
Impairment	(21,071)	(681)	–	(21,752)
Net carrying amount	245	44	11,512	11,801

Notes to the Interim Condensed Consolidated Financial Statements

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13. Prepaid Land Lease Payments

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Carrying amount at 1 January	2,800	2,895
Recognised during the period/year (note 6)	(48)	(95)
Carrying amount at 30 June/31 December	2,752	2,800
Current portion included in prepayments, deposits and other receivables (note 17)	(95)	(95)
Non-current portion	2,657	2,705

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

14. Inventories

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Raw materials	143,819	186,753
Work in progress	50,977	93,738
Finished goods	55,808	134,162
	250,604	414,653

Notes to the Interim Condensed Consolidated Financial Statements

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15. Trade Receivables

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade receivables	189,246	114,423
Less: provision for impairment of receivables	(36,264)	–
	152,982	114,423

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

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

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

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 30 days	105,772	56,809
31 to 60 days	45,528	25,840
61 to 90 days	48	13,689
Over 90 days	37,898	18,085
	189,246	114,423
Less: provision for impairment of receivables	(36,264)	–
	152,982	114,423

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

15. Trade Receivables *(continued)*

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Neither past due nor impaired	149,615	108,252
Less than 1 month past due	2,809	3,002
1 to 3 months past due	558	3,169
	152,982	114,423

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

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

16. Financial Assets at Fair Value Through Other Comprehensive Income for 2018 and Available-For-Sale Investments for 2017

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Non-current assets		
Unlisted equity investments, at fair value	10,313	–
Unlisted equity investments, at cost	–	16,631
	10,313	16,631
Current assets		
Investment deposits, at fair value	2,781	10,805

During the period, the loss in respect of the Group's financial assets at fair value through other comprehensive income recognised in other comprehensive income amounted to HK\$2,835,000 (six months ended 30 June 2017: gain amounted to HK\$206,000).

The Group's current financial assets at fair value through other comprehensive incomes represented investments in several wealth management contracts. The Group's non-current financial assets at fair value through other comprehensive income represented investments in unlisted equity. These unlisted equity investments were made in start-up companies which have synergy with the Group's business.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

17. Prepayments, Deposits and Other Receivables

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Non-current assets		
Non-current prepayments	9,261	6,263
Current assets		
Prepayments	6,664	19,554
Deposits and other receivables	82,071	52,298
Prepaid land lease payments (note 13)	95	95
	88,830	71,947

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Notes to the Interim Condensed Consolidated Financial Statements

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18. Cash and Cash Equivalents

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Cash and bank balances	82,245	151,629
Time deposits	–	51,500
Cash and cash equivalents	82,245	203,129
Cash and bank balances denominated in		
— Renminbi (“RMB”)	44,986	33,719
— United States dollars (“US\$”)	35,034	43,569
— HK\$	1,961	125,200
— Other currencies	264	641
Cash and cash equivalents	82,245	203,129

The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Notes to the Interim Condensed Consolidated Financial Statements

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19. Interest-Bearing Bank Borrowings

Current	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Bank loans — unsecured	–	–	–	1.8~2.9	2018	89,265
Bank loans — secured	2.6~3.3	2018	9,370	–	–	–
			9,370			89,265

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Analysed into:		
Bank loans:		
Within one year	9,370	89,265

The Group's banking facilities amounting to HK\$10,000,000 as at 30 June 2018 (31 December 2017: HK\$275,817,000), of which HK\$9,370,000 (31 December 2017: HK\$89,265,000) had been utilised as at the end of the reporting period.

The Group's banking facilities amounting to HK\$10,000,000 are secured by mortgages over the Group's building (Note 11).

All borrowings are denominated in United States dollars.

Notes to the Interim Condensed Consolidated Financial Statements

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20. Trade and Bills Payables

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade payables	241,900	209,843
Bills payables	–	18,580
	241,900	228,423

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 30 days	110,324	99,727
31 to 60 days	5,897	68,345
61 to 90 days	31,886	26,845
Over 90 days	93,793	14,926
	241,900	209,843

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

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21. Other Payables and Accruals

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Deposits received from customers	–	24,185
Other payables	31,434	16,809
Salary and welfare payables	21,388	35,646
Accruals	1,657	2,519
	54,479	79,159

Salary and welfare payables are non-interest-bearing and are payable on demand. Other payables and accruals are non-interest-bearing and are due to mature within one year.

22. Deferred Tax

The movements in deferred tax assets and liabilities during the period are as follows:

Deferred tax assets

Deferred tax assets have been recognised in respect of temporary differences between the carrying amounts and tax bases of inventory provision.

	Inventory provision HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
30 June 2018 (Unaudited)			
At 31 December 2017 and 1 January 2018	3,022	77	3,099
Deferred tax charged to the statement of profit or loss during the period	(2,996)	(77)	(3,073)
Exchange difference	(26)	–	(26)
At 30 June 2018	–	–	–

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30 June 2018

22. Deferred Tax *(continued)*

Deferred tax assets (continued)

	Inventory provision HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
31 December 2017 (Audited)			
At 1 January 2017	9,072	4,365	13,437
Deferred tax charged to the statement of profit or loss during the year	(6,456)	(4,288)	(10,744)
Exchange difference	406	–	406
At 31 December 2017	3,022	77	3,099

Deferred tax liabilities

	Withholding taxes HK\$'000	Total HK\$'000
30 June 2018 (Unaudited)		
At 31 December 2017 and 1 January 2018	871	871
At 30 June 2018	871	871

Notes to the Interim Condensed Consolidated Financial Statements

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22. Deferred Tax *(continued)*

Deferred tax liabilities (continued)

	Fair value adjustments arising from acquisition of a subsidiary HK\$'000	Withholding taxes HK\$'000	Total HK\$'000
31 December 2017 (Audited)			
At 1 January 2017	5,255	871	6,126
Deferred tax credited to the statement of profit or loss during the year	(5,298)	–	(5,298)
Exchange difference	43	–	43
At 31 December 2017	–	871	871

Deferred tax assets have not been recognised in respect of the following items:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Tax losses	541,946	486,546
Deductible temporary differences	209,181	29,220
	751,127	515,766

The above tax losses and deductible temporary differences are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% for the year. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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23. Share Capital Shares

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Issued and fully paid 857,134,000 (31 December 2017: 857,075,000) ordinary shares	8,572	8,571

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2017 (Audited)	849,277,000	8,493	684,805	693,298
Share options exercised (a)	7,798,000	78	15,660	15,738
Reclassification of vested awarded shares	–	–	(470)	(470)
	857,075,000	8,571	699,995	708,566
At 31 December 2017 and 1 January 2018 (Audited)	857,075,000	8,571	699,995	708,566
Share options exercised (a)	59,000	1	118	119
At 30 June 2018 (Unaudited)	857,134,000	8,572	700,113	708,685

- (a) The subscription rights attaching to 59,000 (year ended 31 December 2017: 7,798,000) share options were exercised at the subscription price of HK\$0.83 (year ended 31 December 2017: HK\$0.83 for 7,788,000 share options and HK\$1.7 for 10,000 share options) per share during the period ended 30 June 2017, resulting in the issue of 59,000 (year ended 31 December 2017: 7,798,000) shares for a total cash consideration of HK\$49,000 (year ended 31 December 2017: HK\$6,481,000). An amount of HK\$70,000 (year ended 31 December 2017: HK\$9,257,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

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24. Share Option Schemes

The Company has adopted two share option schemes (the “Schemes”, including the “Pre-IPO Share Option Scheme” and the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Schemes include employees, advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the board of directors of the Company, in their sole discretion, consider have contributed or may contribute to the Group.

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme became effective on 29 May 2015. The following share options were outstanding under the Pre-IPO Share Option Scheme of the Company during the period:

(Unaudited)	Numbers of share options				At 30 June 2018	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2018	Granted during the period	Exercised during the period	Forfeited during the period			
Date of grant							
29/05/2015	6,430,000	–	(59,000)	(91,000)	6,280,000	02/07/2016–02/07/2019	0.83

(Unaudited)	Numbers of share options				At 30 June 2017	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2017	Granted during the period	Exercised during the period	Forfeited during the period			
Date of grant							
29/05/2015	15,127,000	–	(4,427,000)	(603,000)	10,097,000	02/07/2016–02/07/2019	0.83

Notes:

- One-third of these share options are exercisable on the 1st anniversary date of 2 July 2015, a further one-third are exercisable on the 2nd anniversary date of 2 July 2015, and the remaining one-third are exercisable on the 3rd anniversary date of 2 July 2015.
- The fair value of the share options granted on 29 May 2015 was HK\$24,973,000 (HK\$1.18783 each), of which the Group recognised a share option expense of HK\$885,000 during the period (six months ended 30 June 2017: HK\$1,575,000).

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24. Share Option Schemes (Continued)

Pre-IPO Share Option Scheme (Continued)

The 59,000 share options exercised during the period resulted in the issue of 59,000 ordinary shares of the Company and new share capital of HK\$590 and share premium of HK\$118 (before issue expenses), as further detailed in note 23(a) to the financial statements.

As at 30 June 2018, the Company had 6,280,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,280,000 ordinary shares of the Company and new share capital of HK\$63,000 and share premium of HK\$12,609,000 (before issue expenses).

Share Option Scheme

The following share options were outstanding under the Share Option Scheme of the Company during the period:

(Unaudited)		Numbers of share options			At 30 June 2018	Exercise period (both dates inclusive)	Exercise price per share
Date of grant	At 1 January 2018	Granted during the period	Forfeited during the period				
(i)	27/07/2015	2,000,000	–	–	2,000,000	27/07/2016–26/07/2020	3.46
(ii)	15/09/2016	11,544,000	–	(879,000)	10,665,000	15/09/2017–14/09/2024	1.70
(iii)	01/12/2016	11,400,000	–	(6,800,000)	4,600,000	01/12/2017–30/01/2025	1.986
(iv)	18/05/2017	15,000,000	–	(3,210,000)	11,790,000	18/05/2018–17/05/2025	2.206
(v)	26/04/2018	–	12,522,000	–	12,522,000	26/04/2019–26/04/2026	0.93
		39,944,000	12,522,000	(10,889,000)	41,577,000		

(Unaudited)		Numbers of share options			At 30 June 2017	Exercise period (both dates inclusive)	Exercise price per share
Date of grant	At 1 January 2017	Granted during the period	Forfeited during the period				
(i)	27/07/2015	2,000,000	–	–	2,000,000	27/07/2016–26/07/2020	3.46
(ii)	15/09/2016	12,861,000	–	(543,000)	12,318,000	15/09/2017–14/09/2024	1.70
(iii)	01/12/2016	19,900,000	–	–	19,900,000	01/12/2017–30/01/2025	1.986
(iv)	18/05/2017	–	15,000,000	–	15,000,000	18/05/2018–17/05/2025	2.206
		34,761,000	15,000,000	(543,000)	49,218,000		

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24. Share Option Schemes (Continued)

Share Option Scheme (Continued)

Notes:

- (i) One-half of these share options are exercisable on the 1st anniversary date of 27 July 2015, and the remaining one-half are exercisable on the 2nd anniversary date of 27 July 2015.

The fair value of the share options granted on 27 July 2015 was HK\$1,814,000 (HK\$0.907 each), of which none share option expense was recognised during the period (six months ended 30 June 2017: HK\$240,000).

- (ii) One-third of these share options shall become vested on the 1st anniversary date of 15 September 2016, a further one-third shall become vested on the 2nd anniversary date of 15 September 2016, and the remaining one-third shall become vested on the 3rd anniversary date of 15 September 2016.

The fair value of the share options granted on 15 September 2016 was HK\$8,111,000 (HK\$0.62672 each), of which the Group recognised a share option expense HK\$603,000 during the period (six months ended 30 June 2017: HK\$2,229,000).

- (iii) One-third of these share options shall become vested on the 1st anniversary date of 1 December 2016, a further one-third shall become vested on the 2nd anniversary date of 1 December 2016, and the remaining one-third shall become vested on the 3rd anniversary date of 1 December 2016.

The fair value of the share options granted on 1 December 2016 was HK\$13,990,000 (HK\$0.703 each), of which the Group reversed a share option expense of HK\$2,361,000 during the period (six months ended 30 June 2017: recognised amounted to HK\$3,448,000).

- (iv) One-third of these share options shall become vested on the 1st anniversary date of 18 May 2017, a further one-third shall become vested on the 2nd anniversary date of 18 May 2017, and the remaining one-third shall become vested on the 3rd anniversary date of 18 May 2017.

The fair value of the share options granted on 18 May 2017 was HK\$10,416,000 (HK\$0.6944 each), of which the Group recognised a share option expense of HK\$1,230,000 during the period (six months ended 30 June 2017: HK\$506,000).

- (v) One-third of these share options shall become vested on the 1st anniversary date of 26 April 2018, a further one-third shall become vested on the 2nd anniversary date of 26 April 2018, and the remaining one-third shall become vested on the 3rd anniversary date of 26 April 2018.

The fair value of the share options granted on 26 April 2018 was HK\$4,245,000 (HK\$0.339 each), of which the Group recognised a share option expense of HK\$422,000 during the period.

The following assumptions were used to derive the fair value, using the binomial model:

At grant date	28 April 2018	18 May 2017
(i) Expected volatility	59.03%–62.75% per year	57.63%–61.27% per year
(ii) Expected life of options	6.0–8.0	6.0–8.0
(iii) Average risk-free interest rate	2.11%–2.13% per year	1.16%–1.22% per year
(iv) Expected dividend yield	5.74% per year	5.32% per year
(v) Estimated rate of leaving service	27.50% per year	25% per year

As at 30 June 2018, the Company had 41,577,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 41,577,000 additional ordinary shares of the Company and additional share capital of HK\$416,000 and share premium of HK\$95,588,000 (before issue expenses).

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25. Share Award Scheme

A share award scheme was adopted on 20 September 2016 (the "Share Award Scheme"). The Share Award Scheme is to recognise the contributions made by certain employees and to provide them with incentives in order to maintain the continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

The awarded shares will be acquired by an independent trustee (the "Trustee") from the open market by utilizing the Company's resources provided to the Trustee. The maximum number of shares in respect of which shares may be granted under the Share Award Scheme and which may be awarded to a selected employee shall not exceed 10% and 2.5% respectively of the issued share capital of the Company as at 20 September 2016.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Scheme, the scheme shall be valid and effective from 20 September 2016 to the date the last of the awarded shares has been vested and transferred to the relevant selected employee or has lapsed in accordance with the terms provided that no award shall be made on or after 10 years of 20 September 2016.

During the period, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme.

The following share award were outstanding under the Share Award Scheme of the Company during the period:

(Unaudited)						
Date of grant	At 1 January 2018	Granted during the period	Forfeited during the period	At 30 June 2018	Exercise period (both dates inclusive)	Exercise price per share
29/11/2016	4,372,000	–	–	4,372,000	19/12/2017–19/12/2019	–

(Unaudited)						
Date of grant	At 1 January 2017	Granted during the period	Forfeited during the period	At 30 June 2017	Exercise period (both dates inclusive)	Exercise price per share
29/11/2016	6,558,000	–	–	6,558,000	19/12/2017–19/12/2019	–

Notes:

- In 2016, based on the Company's instructions, the Trustee has purchased a total of 6,558,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK\$1.79 to HK\$2.30 per share at a total consideration (including related transaction costs) of approximately HK\$14,000,000.
- The Company granted 6,558,000 shares to a certain employee on 29 November 2016, which will be vested in tranches of one-third each on every anniversary date of the grant date starting from the first anniversary date until the third anniversary date.
- The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.92) on the day of the grant, amounted to HK\$12,591,000, of which the Group recognised a share award expense of HK\$1,749,000 during the period (six months ended 30 June 2017: HK\$3,847,000).

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26. Reserves

The amounts of the Group's reserves and the movements therein for the current period and prior period are presented in the consolidated statement of changes in equity on pages 37 to 38 of the financial statements.

Reserve fund

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

27. Operating Lease Arrangements

As lessee

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

At 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within one year	26,879	18,034
In the second to fifth years, inclusive	66,314	24,511
After five years	9,614	3,026
	102,807	45,571

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28. Commitments

In addition to the operating lease commitments detailed in note 27 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	1,283	1,419

29. Related Party Transactions

(1) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the reporting period:

	Six months ended 30 June 2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Loan from a related party:		
Tang Wing Fong Terry	52,583	–
Rental expenses:		
XinYongYi Technology Park (Heyuan) Limited (“XinYongYi”)	2,100	2,442
Sales of goods to an associate		
Kandao Lightforge Co., Ltd.	3,720	–

The amounts from Tang Wing Fong Terry are unsecured, interest-free, of which the maturity is over one year.

The rental expenses were paid to XinYongYi, which was controlled by a director of the Company, for a lease of plant and office premises located in Heyuan and were charged at a monthly rental of HK\$350,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$407,000). The rental was made according to negotiation with the counterparty.

Sales of goods to Kandao Lightforge Co., Ltd. are charged at prevailing market prices.

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29. Related Party Transactions *(Continued)*

(2) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2018	2017
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Short term employee benefits	1,368	3,172
Post-employment benefits	56	91
Equity-settled share option and share award scheme expenses	447	5,479
Total compensation paid to key management personnel	1,871	8,742

(3) Outstanding balances with related parties

	30 June 2018	31 December 2017
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Due from a related party:		
XinYongYi	828	835
Due to related parties:		
Tang Wing Fong Terry	52,583	–
Shenzhen Yongyida Electronics Co.,Ltd (“Yongyida”)	41	42
XinYongYi	285	254
Kandao Lightforge Co., Ltd.	3,305	–
	56,214	296

These balances are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate their fair values. All the above balances were generated from operating activities except the loan from Tang Wing Fong Terry.

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30. Approval of the Condensed Consolidated Financial Statements

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 were approved and authorised for issue by the board of directors of the Company on 29 August 2018.