

INTERIM REPORT 2019

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 2019





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Financial Highlights

	Six months ended 30 June		Change
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	
REVENUE	265,647	558,786	(52.5%)
COST OF SALES	(230,683)	(605,168)	(61.9%)
GROSS PROFIT	34,964	(46,382)	(175.4%)
GROSS PROFIT MARGIN (%)	13.2%	(8.3%)	21.5 p.p.t.
LOSS FOR THE PERIOD	(34,539)	(237,950)	(85.5%)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT BASIC AND DILUTED	HK(3.7) cents	HK(27.9) cents	(86.7%)
TOTAL EQUITY	329,864	310,067	6.4%

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

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

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. 8 & 9 Building
Antuoshan High-tech Industrial Park
Xinsha Road, Shajing, Bao'An
Shenzhen
PRC

Principal Place of Business in Hong Kong

Room 1910 19/F 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

Tricor Services (Cayman Islands) 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 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

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

Citibank N.A.
9/F Citi Tower One Bay East
83 Hoi Bun Road
Kwun Tong
Kowloon
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 marketing, development and manufacturing of home surveillance cameras, 360-degree cameras and other digital imaging products such as car camcorders, police cameras as well as imaging products for various alternative 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.

For the six months ended 30 June 2019 (“2019 Interim”), the Group’s turnover significantly dropped to approximately HK\$265.6 million compared to approximately HK\$558.8 million for the same period of 2018 (“2018 Interim”). More than 50% of our business products fell into the list of the United States of America (the “US”) tariff imposed on US\$200 billion goods importing to the US. Our US customers reduced their orders and temporarily halted the project discussions with us from fourth quarter (“Q4”) of 2018, affecting our business in the first half of 2019. In December of 2018, we decided to set up a factory near Hanoi, Vietnam in which we own 65% majority equity interest. The factory started pilot run in May, 2019.

Our loss in the first half of 2019 significantly reduced to approximately HK\$34.5 million compared to approximately HK\$238.0 million for the same period of 2018, mainly because we terminated the ION360 business at the end of 2018, and kept on reducing our operation costs.

Prospects

After terminating the ION360 business, we are focusing on manufacturing business and developing innovative products for future opportunities. With our production in Vietnam, many customers are keenly interested to start projects with us. We are optimistic with our business starting from Q4 of 2019 and the management team will work hard to turn around as soon as possible.

We believe that imaging products and solutions will be widely used with different applications, especially when the era of 5th generation mobile networks (“5G”) is being launched. We trust the market demand will increase continuously and the Group’s management is confident about our future. Thus, the Group will work hard to increase market share and deliver high-quality products and solutions to our customers by pursuing the following strategies:

- Continue to develop innovative products by further investing in product planning and development capabilities;
- Strengthen customer relationships and further expand our worldwide customer base;
- Improve the operational excellence of our factories in Vietnam and China.

Management Discussion and Analysis

Financial review

Turnover

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

	Six months ended 30 June				
	2019 HK\$'000	% of total revenue	2018 HK\$'000	% of total revenue	Revenue change
Home surveillance cameras	99,968	37.6%	396,896	71.0%	(74.8%)
Digital imaging products	67,692	25.5%	130,298	23.3%	(48.0%)
Other products	97,987	36.9%	31,592	5.7%	210.2%
Total	265,647	100.0%	558,786	100.0%	(52.5%)

For 2019 Interim, the Group recorded a turnover of approximately HK\$265.6 million from the ODM/JDM business (2018 Interim: approximately HK\$558.8 million), representing a significant decrease of approximately 52.5% as compared to 2018 Interim. Mainly due to the significant decrease of number of orders received by the Group from its customers in the US as compared with the same period of last year caused by the trade war between the US and China, with the US imposing tariff on goods originating from China including most of the Group's export to the US.

Management Discussion and Analysis

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

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
United States of America	144,667	377,011
Mainland China	29,456	111,676
European Union	81,371	56,567
Other countries and areas	10,153	13,532
Total	265,647	558,786

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 2019 Interim, cost of sales of the Group amounted to approximately HK\$230.7 million (2018 Interim: approximately HK\$605.2 million), representing a decrease of approximately 61.9% as compared to 2018 Interim, and amounted to approximately 86.8% (2018 Interim: approximately 108.3%) of its turnover for 2019 Interim. This decrease mainly attributable to (i) reduction of approximately HK\$132.4 million of the impairment losses for inventories for ION360 business and (ii) significant decrease in the shipment units of home surveillance cameras and digital imaging products.

Management Discussion and Analysis

Gross profit and gross profit margin

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	265,647	558,786
Cost of sales	230,683	605,168
Gross profit	34,964	(46,382)
Gross profit margin	13.2%	(8.3%)

The Group recorded a gross profit of approximately HK\$35.0 million for 2019 Interim (2018 Interim: approximately HK\$(46.4) million), representing an increase of approximately 175.4% as compared to 2018 Interim. The gross profit margin increased from approximately (8.3%) for 2018 Interim to approximately 13.2% for 2019 Interim. This increase was mainly attributable to the inventory provision amounted to HK\$132.4 million for the six months ended 30 June 2018 arising from ION360 business. As ION360 business was disposed in 2018, no such significant expense occurred in 2019 Interim.

Other income and gains

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

For 2019 Interim, other income and gains of the Group decreased by approximately 46.9% to approximately HK\$5.6 million as compared to 2018 Interim, which was primarily attributable to a decrease of approximately HK\$4.7 million in exchange gain.

Selling and distribution expenses

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

For 2019 Interim, selling and distribution expenses of the Group decreased approximately 41.5% to approximately HK\$13.1 million from approximately HK\$22.4 million for 2018 Interim. The decrease was mainly due to the reduction in the majority of cost for ION360 business.

Management Discussion and Analysis

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 2019 Interim, administrative expenses of the Group decreased by approximately 75.8% to approximately HK\$24.6 million (2018 Interim: approximately HK\$101.7 million). The decrease was mainly due to (i) the reduction in the majority of cost for ION360 business approximately HK\$15.1 million; (ii) the reduction of the impairment loss for account receivable and prepayments of approximately HK\$42.5 million; and (iii) the Group's stringent cost control during 2019 interim.

Research and development costs

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

For 2019 Interim, the Group recorded research and development costs of approximately HK\$28.8 million, which decreased by approximately 55.3% from approximately HK\$64.4 million for 2018 Interim. The decrease was mainly due to (i) the reduction in the majority of cost for ION360 business approximately HK\$15.0 million and (ii) the Group's stringent cost control during 2019 interim.

Other expenses

Other expenses include principally (i) exchange losses arising mainly from fluctuations in exchange rates between the invoice and settlement dates of its sales and purchases and from translation of its US\$-denominated trade payables and receivables; and (ii) impairment losses of assets.

For 2019 Interim, other expenses of the Group increased to approximately HK\$6.9 million from approximately HK\$6.5 million for 2018 Interim. This mainly consisted the loss on disposal of fixed assets.

Finance costs

For 2019 Interim, the finance costs of the Group increased to approximately HK\$1.7 million (2018 Interim: approximately HK\$0.9 million), representing an increase by approximately 84.5% as compared to 2018 Interim. This increase was attributable to the Group adopted HKFRS 16 from 1 January 2019.

Income tax expense

For 2019 Interim, the income tax expense of the Group were approximately HK\$0.04 million (2018 Interim: approximately HK\$3.1 million). The income tax expense recognised in 2018 Interim was due to the reversal of deferred tax assets and no such expense occurred in 2019 Interim.

Management Discussion and Analysis

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK\$34.5 million for 2019 Interim.

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. The following table sets out its selected consolidated cash flow for the periods indicated:

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net cash flows from/(used in) operating activities	18,009	(88,736)
Net cash flows used in investing activities	(2,379)	(334)
Net cash flows used in financing activities	(6,749)	(28,159)
Net increase/(decrease) in cash and cash equivalents	8,881	(117,229)
Cash and cash equivalents at beginning of period	95,132	203,129
Effect of foreign exchange rate changes, net	1,894	(3,655)
Cash and cash equivalents at end of period	105,907	82,245

Net cash from operating activities for 2019 Interim was approximately HK\$18.0 million, which primarily reflected (i) the adjusted loss before tax of approximately HK\$34.5 million; (ii) the decrease of trade receivables of approximately HK\$66.1 million; (iii) the decrease in trade and bills payables balances of approximately HK\$68.6 million; and (iv) the decrease in prepayments, and other assets of approximately HK\$16.2 million.

Net cash used in investing activities for 2019 Interim was approximately HK\$2.4 million. This mainly consisted of (i) payment of approximately HK\$7.0 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; (ii) the gross proceeds from disposals of items of property, plant and equipment of approximately HK\$3.6 million; and (iii) the interest received of approximately HK\$1.0 million.

Management Discussion and Analysis

Net cash used in the financing activities for 2019 Interim was approximately HK\$6.7 million, which was mainly reflected (i) the net repayment of bank borrowing of approximately HK\$5.4 million; and (ii) principal portion of lease payments approximately HK\$8.6 million and capital contribution from a non-controlling shareholder approximately HK\$8.2 million; and (iii) interest paid of approximately HK\$0.4 million and share issue expenses of approximately HK\$0.5 million.

The Group's cash and cash equivalents were mainly denominated in US\$, HK\$ and RMB as at 30 June 2019.

Borrowing and the pledge of assets

The Group's bank facilities amounting to HK\$33.0 million (31 December 2018: HK\$33.0 million), of which HK\$24.3 million (31 December 2018: HK\$29.7 million) had been utilised as at the 30 June 2019.

The Group's banking facilities amounting to HK\$10.0 million are secured by mortgages over the Group's building and prepared land lease payments included in right-of-use assets. The Group's banking facility amounting to HK\$23.0 million is secured by an insurance and a wealth management product purchased from the bank.

The Group's bank and other borrowings are all denominated in US\$. As at 30 June 2019, the annual interest rate of bank borrowings ranged from 3.6% to 4.0% (31 December 2018: 2.6% to 4.3%).

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank and other borrowings) by total equity as at the end of the each period. The Group's gearing ratio as at 31 December 2018 and 30 June 2019 was approximately 9.6% and approximately 7.4%, respectively. The decrease in gearing ratio was primarily due to significant decrease in interest-bearing bank borrowings and the capitalization of shareholder loan.

Capital expenditure

During 2019 Interim, the Group invested approximately HK\$7.0 million (2018 Interim: approximately HK\$13.4 million) in fixed assets and intangible assets, which was mainly used for the expense for the upgrade of property, plant and equipments in factory located in Shenzhen and the decoration of factory located in Vietnam.

Off balance sheet transactions

During 2019 Interim, the Group did not enter into any material off balance sheet transactions.

Management Discussion and Analysis

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 85.1% and 95.2% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 47.0% and 53.8% of inventory costs were denominated in their functional currencies for 2018 Interim and 2019 Interim, respectively.

The Group used forward currency contracts to manage currency risk. However, due to the high fluctuation in exchange rate during the period, the Group did not enter into any forward currency contracts during 2019 Interim and had no outstanding forward currency contracts as at 30 June 2019 (31 December 2018: Nil).

Events after the reporting period

There are no significant events occurring after the reporting period of 2019 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 2019 Interim, the Group did not have any investment under its treasury policies.

Management Discussion and Analysis

Employees and emoluments policy

As at 30 June 2019, the Group employed a total of 1,040 employees (31 December 2018: 1,164). The staff costs of the Group, excluding directors' emoluments and chief executive's remuneration, were approximately HK\$62.6 million for 2019 Interim (2018 Interim: approximately HK\$85.6 million), approximately HK\$5.8 million (2018 Interim: recognised approximately HK\$2.3 million) of which are the reversal of expenses for the Group's share option schemes and share award scheme. All of the Group's employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talents. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes. In addition to the share option schemes, the Group also adopted a share award scheme on 20 September 2016 to: (i) recognise the contributions by certain employees and to provide them with incentives in order to retain talents; and (ii) attract suitable personnel for the Group's further development.

Significant investments held

As at 30 June 2019, the Group held unlisted equity investments of approximately HK\$32.8 million (31 December 2018: approximately HK\$34.0 million). These unlisted equity investments were made in start-up companies which have synergies with the Group's business.

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 Group did not have any material acquisitions and disposals of subsidiaries and associated companies during 2019 Interim.

Contingent liabilities

As at 30 June 2019, the Group had no significant contingent liabilities.

Dividends

The Board does not recommend the payment of interim dividend for 2019 Interim (2018 Interim: Nil).

Other Information

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

As at 30 June 2019, 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	587,145,557 shares (L)	–	61.63%
Wu Yongmou ⁽³⁾	Founder of a discretionary trust and beneficial owner	53,836,000 shares (L)	–	5.65%
Tang Kam Sau ⁽⁴⁾	Interest in a controlled corporation	39,192,000 shares (L)	–	4.11%
Lu Yongbin ⁽⁵⁾	Beneficial owner	3,595,800 shares (L)	756,000 shares (L)	0.46%
Mr. Tse Yat Hong ⁽⁶⁾	Beneficial owner	–	1,500,000 shares (L)	0.16%
Cheung Wah Keung ⁽⁶⁾	Beneficial owner	–	1,500,000 shares (L)	0.16%
Chan Tsu Ming Louis ⁽⁶⁾	Beneficial owner	–	1,500,000 shares (L)	0.16%

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.
- (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 169,427,957 Shares.
- (3) The disclosed interest represents (i) the interest in 10,931,000 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 42,905,000 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) 756,000 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 2019, 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 2019, 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	430,834,600 shares (L)	45.22%
Antopex Limited ⁽²⁾	Nominee for another person	428,648,600 shares (L)	44.99%
Best One International Limited ⁽²⁾⁽³⁾	Interest of controlled corporation	417,717,600 shares (L)	43.84%
Fortune Six Investment Ltd. ⁽²⁾⁽³⁾	Beneficial owner	417,717,600 shares (L)	43.84%

Notes:

(1) The letter "L" denotes a person's long position in the shares of the Company.

(2) Wing Lung Bank (Trustee) Limited as trustee holds 430,834,600 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) 10,931,000 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) 2,186,000 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".

Save as disclosed above, as at 30 June 2019, 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.

Other Information

Directors' Interests in Contracts of Significance

Save as disclosed in the note 26 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 2019 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 2019 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.

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 2019 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 prior to the listing of the Shares. 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 2.21% 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.

Other Information

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

Pre-IPO Share Option Scheme (Continued)

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).

The following table discloses details of the Company's share options held by the employees and movements in such holding during 2019 Interim:

Name					As at 30 June 2019	Approximate percentage of the total number of Shares in issue as at the date of this report
	As at 1 January 2019	Exercised	Cancelled	Lapsed		
Employees	3,198,000	–	–	530,000	2,668,000	0.28%

Other Information

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

Pre-IPO Share Option Scheme (Continued)

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 reversed the expense of approximately HK\$630,000 during 2019 Interim (2018 Interim: recognised expense of approximately HK\$885,000) in relation to Pre-IPO Share Option Scheme granted by the Company.

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

Other Information

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

Share Option Scheme *(Continued)*

(1) *(Continued)*

- (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.
- (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.

Other Information

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

Share Option Scheme (Continued)

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 36,496,000 Shares, representing approximately 3.83% 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 (Note 1)	15 September 2016 (Note 2)(Note 3)	1 December 2016 (Note 4)	18 May 2017 (Note 5)	26 April 2018 (Note 6)	16 May 2019 (Note 7)
(i) Share Options granted as at the date of grant or 1 January 2019	2,000,000	9,411,000	4,600,000	10,281,000	12,522,000	13,110,000
Share Options exercised during the period	-	-	-	-	-	-
Share Options cancelled during the period	-	-	-	-	-	-
Share Options lapsed during the period	2,000,000	975,000	600,000	1,566,000	3,279,000	-
(ii) Share Options outstanding as at 30 June 2019	-	8,436,000	4,000,000	8,715,000	9,243,000	13,110,000
Approximate percentage of the total number of Shares in issue as at the date of this report	0.00%	0.89%	0.42%	0.91%	0.97%	1.38%

Notes:

- 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). As Professor Huang Erwin Steve retired on 24 May 2019, the above Share Options lapsed on the same day.
- On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 15 September 2016.

Other Information

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

Share Option Scheme (Continued)

Notes: (Continued)

- (3) Among the Share Options granted on 15 September 2016, 2,250,000 Share Options were granted to the following Directors of the Company. Professor Huang Erwin Steve retired as director on 24 May 2019, so his share options lapsed on the same day. Details of which are as follows:

Name of Directors	Position	Share Options as at 1 January 2019	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 2019	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	-	0.00%
Chan Tsu Ming Louis	Independent non-executive director	750,000	-	-	-	750,000	0.08%
Cheung Wah Keung	Independent non-executive director	750,000	-	-	-	750,000	0.08%

- (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" based on the terms set out in the Company's announcement dated 1 December 2016.
- (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 based on the terms set out in the Company's announcement dated 18 May 2017. Among the said Share Options granted, 210,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company.

Other Information

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

Share Option Scheme *(Continued)*

Notes: *(Continued)*

- (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 based on the terms set out in the Company's announcement dated 26 April 2018. 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.
- (7) On 16 May 2019, 13,110,000 share options were granted to certain eligible employees pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 16 May 2019. Among the said Share Options granted, 294,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company, 750,000 Shares were granted to Mr. Tse Yat Hong, an Independent non-executive director of the Company ; 750,000 Shares were granted to Dr. Cheung Wah Keung, an Independent non-executive director of the Company and 750,000 Shares were granted to Mr. Chan Tsu Ming Louis, an Independent non-executive director of the Company.

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

At grant date	16 May 2019	26 April 2018	18 May 2017	15 September 2016 & 1 December 2016	27 July 2015
(i) Expected volatility	59.67–61.87% per year	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	2.0–4.0	6.0–8.0	6.0–8.0	6.0–8.17	4.0–5.0
(iii) Average risk-free interest rate	1.56–1.69% per year	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	5.32% per year	5.74% per year	5.32% per year	3.93%–5.32% per year	3.93% per year
(v) Estimated rate of leaving service	27.5% per year	27.50% per year	25% per year	0%–25% per year	0% per year

The Group reversed expense of HK\$2,021,000 during 2019 Interim (2018 Interim: reversed expense of HK\$106,000) in relation to Share Option Scheme granted by the Company.

Other Information

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.

(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.

Other Information

Share Award Scheme *(Continued)*

(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.

(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.

Other Information

Share Award Scheme *(Continued)*

(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.

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.

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 2019 Interim.

Ernst & Young, the external auditors of the Company, have reviewed the interim financial information of the Group for the 2019 Interim.

Other Information

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 2019 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.

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.

Other Information

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 2019 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 2019 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 2019 up to the date of this report.

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 2018 annual report of the Company are set out below:

Directors	Details of changes
Dr. Cheung Wah Keung	Appointed as the independent non-executive Chairman and the authorised representative of PanAsialum Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2078), with effect from 2 August 2019

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

Hong Kong
28 August 2019

Report on Review of Interim Condensed Consolidated Financial Statements



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Independent review report

To the board of directors of Sky Light Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 30 to 66, which comprise the condensed consolidated statement of financial position of Sky Light Holdings Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2019 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and other 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 (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 HKICPA. 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
28 August 2019

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
REVENUE	5	265,647	558,786
Cost of sales		(230,683)	(605,168)
Gross profit		34,964	(46,382)
Other income and gains	5	5,590	10,537
Selling and distribution expenses		(13,126)	(22,427)
Administrative expenses		(24,577)	(101,690)
Research and development expenses		(28,778)	(64,402)
Other expenses		(6,915)	(6,510)
Finance costs	7	(1,653)	(896)
Share of losses of associates		–	(3,096)
LOSS BEFORE TAX	6	(34,495)	(234,866)
Income tax expense	8	(44)	(3,084)
LOSS FOR THE PERIOD		(34,539)	(237,950)
Attributable to:			
Owners of the parent		(34,348)	(237,950)
Non-controlling interests		(191)	–
		(34,539)	(237,950)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10	925,717	852,752
Basic		HK(3.7) cents	HK(27.9) cents
Diluted		HK(3.7) cents	HK(27.9) cents

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	Note	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
LOSS FOR THE PERIOD		(34,539)	(237,950)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		842	(2,401)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income	15	(1,204)	(2,835)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(362)	(5,236)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(34,901)	(243,186)
Attributable to:			
Owners of the parent		(34,710)	(243,186)
Non-controlling interests		(191)	–
		(34,901)	(243,186)

Interim Condensed Consolidated Statement of Financial Position

30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	67,849	76,741
Right-of-use assets		59,555	–
Prepaid land lease payments		–	2,610
Intangible assets	12	10,346	10,795
Equity investments designated at fair value through other comprehensive income	15	32,831	34,035
Prepayments and other receivables	17	6,102	9,959
Total non-current assets		176,683	134,140
CURRENT ASSETS			
Inventories	13	184,713	206,852
Trade receivables	14	54,539	122,602
Due from a related party	26	564	589
Prepayments and other receivables	17	33,013	49,343
Financial assets at fair value through profit or loss	16	2,694	2,635
Cash and cash equivalents	18	105,907	95,132
Total current assets		381,430	477,153
CURRENT LIABILITIES			
Trade and bills payables	20	100,404	169,046
Other payables and accruals	21	53,174	43,993
Interest-bearing bank borrowings	19	24,307	29,717
Tax payable		6,275	6,275
Due to related parties	26	57	84
Total current liabilities		184,217	249,115
NET CURRENT ASSETS		197,213	228,038
TOTAL ASSETS LESS CURRENT LIABILITIES		373,896	362,178

Interim Condensed Consolidated Statement of Financial Position

30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		373,896	362,178
NON-CURRENT LIABILITIES			
Other long term payables	22	43,161	–
Due to a related party	26	–	51,240
Deferred tax liabilities		871	871
Total non-current liabilities		44,032	52,111
Net assets		329,864	310,067
EQUITY			
Equity attributable to owners of the parent			
Share capital	23	9,528	8,572
Shares held for Share Award Scheme		(4,666)	(9,333)
Reserves	24	317,042	310,828
		321,904	310,067
Non-controlling interests		7,960	–
Total equity		329,864	310,067

Tang Wing Fong Terry
Director

Lu Yongbin
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	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	Accumulated losses HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2019	8,572	(9,333)	700,113	151,803	7,112	24,791	37,050	(581,434)	(28,607)	310,067	–	310,067
Loss for the period	–	–	–	–	–	–	–	(34,348)	–	(34,348)	(191)	(34,539)
Other comprehensive income/(loss) for the period:												
Changes in fair value of equity investments at fair value through other comprehensive income	–	–	–	(1,204)	–	–	–	–	–	(1,204)	–	(1,204)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	842	842	–	842
Total comprehensive loss for the period	–	–	–	(1,204)	–	–	–	(34,348)	842	(34,710)	(191)	(34,901)
Issue of shares (note 23(a))	956	–	51,627	–	–	–	–	–	–	52,583	–	52,583
Share issue expense	–	–	(470)	–	–	–	–	–	–	(470)	–	(470)
Capital contribution by a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	8,151	8,151
Reclassification of vested awarded shares	–	4,667	(470)	–	(4,197)	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	–	(2,651)	–	–	–	(2,651)	–	(2,651)
Equity-settled share award scheme arrangements	–	–	–	–	(2,915)	–	–	–	–	(2,915)	–	(2,915)
At 30 June 2019 (unaudited)	9,528	(4,666)	750,800 [#]	150,599 [#]	–	22,140 [#]	37,050 [#]	(615,782) [#]	(27,765) [#]	321,904	7,960	329,864

Note:

[#] These reserve accounts comprise the consolidated reserves of HK\$317,042,000 in the interim condensed consolidated statement of financial position as at 30 June 2019 (31 December 2018: HK\$310,828,000).

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	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 equity investments 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	1	-	118	-	-	(70)	-	-	-	49
Equity-settled share option arrangements	-	-	-	-	-	779	-	-	-	779
Equity-settled share award scheme arrangements	-	-	-	-	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

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(34,495)	(234,866)
Adjustments for:			
Finance costs	7	1,653	896
Share of losses of associates		–	3,096
Bank interest income	5	(1,048)	(273)
Write-down of inventories to net realisable value	6	19,962	144,016
Depreciation of property, plant and equipment	6	14,344	17,451
Depreciation of right-of-use assets	6	8,491	–
Amortisation of prepaid land lease payments	6	–	48
Amortisation of intangible assets	6	629	1,326
Loss on disposal of items of property, plant and equipment	6	1,560	1,975
Fair value gains, net:			
Financial assets at fair value through profit or loss		(59)	–
Impairment of prepayments and other receivables	6	–	8,200
Impairment of trade receivables	6	1,950	36,264
Equity-settled share option expense		(2,651)	779
Equity-settled share award scheme expense		(2,915)	1,749
		7,421	(19,339)
Decrease in inventories		2,461	21,699
Decrease/(increase) in trade receivables		66,113	(38,559)
Decrease in amounts due from a related party		25	7
Decrease/(increase) in prepayments and other receivables		16,235	(61,347)
(Decrease)/increase in trade and bills payables		(68,642)	13,477
(Decrease)/increase in amounts due to related parties		(27)	3,335
Decrease in other payables and accruals		(5,533)	(7,939)
Cash generated from/(used in) operations		18,053	(88,666)
Tax paid		(44)	(70)
Net cash flows from/(used in) operating activities		18,009	(88,736)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net cash flows from/(used in) operating activities		18,009	(88,736)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(7,005)	(13,408)
Gross proceeds from disposals of items of property, plant and equipment		3,578	1,294
Disposal of equity investments designated at fair value through other comprehensive income		–	11,507
Interest received		1,048	273
Net cash used in investing activities		(2,379)	(334)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		24,307	43,382
Loans from the shareholder		–	52,583
Repayments of bank loans		(29,717)	(123,277)
Interest paid	7	(384)	(896)
Principal portion of lease payments		(8,636)	–
Share issue expenses		(470)	–
Capital contribution from a non-controlling shareholder		8,151	–
Issue of shares by exercise of share options		–	49
Net cash flows used in financing activities		(6,749)	(28,159)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		8,881	(117,229)
Cash and cash equivalents at beginning of year		95,132	203,129
Effect of foreign exchange rate, net		1,894	(3,655)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		105,907	82,245
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	105,907	82,245
Cash and cash equivalents as stated in the statement of financial position	18	105,907	82,245
Cash and cash equivalents as stated in the statement of cash flows		105,907	82,245

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

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 information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

During the period, the Group suffered a loss of HK\$34,539,000, and had net current assets of HK\$197,213,000 as at 30 June 2019. 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.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual improvements 2015–2017 cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) Adoption of HKFRS 16

New definition of a lease

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of buildings and land. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., equipment); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of HKFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and accruals and other long term payables.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All the assets were assessed for any impairment. The Group elected to present the right-of-use assets separately in the statement of financial position. The current and non-current portion of prepaid land lease payments, which represents medium-term leasehold lands in Hong Kong, amounting to HK\$95,000 and HK\$2,610,000 respectively were reclassified to right-of-use assets.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) Adoption of HKFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases *(Continued)*

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

	HK\$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	80,009
Weighted average incremental borrowing rate as at 1 January 2019	4.85%
Discounted operating lease commitments as at 1 January 2019	62,718
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	47
Commitments relating to leases of low-value assets	43
Add: Payments in optional extension periods not recognized as at 31 December 2018	2,523
Lease liabilities as at 1 January 2019	65,151

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) Adoption of HKFRS 16 (Continued)

Summary of new accounting policies *(Continued)*

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) Adoption of HKFRS 16 (Continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within long term payable), and the movement during the period are as follow:

	Right-of-use assets			Lease liabilities HK\$'000
	Land HK\$'000	Buildings HK\$'000	Subtotal HK\$'000	
As at 1 January 2019	2,705	65,151	67,856	65,151
Additions	–	62	62	–
Depreciation charge	(48)	(8,443)	(8,491)	–
Interest expense	–	–	–	1,269
Payments	–	–	–	(8,636)
Exchange difference	–	128	128	91
As at 30 June 2019	2,657	56,898	59,555	57,875

The Group recognised rental expenses from short-term leases of HK\$36,000 and leases of low-value assets of HK\$23,000 for the six months ended 30 June 2019.

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

During the year ended 31 December 2018, the Group disposed of its ION360 business which had been loss making for some years. The ION360 business was no longer included in the note for operating segment information during the reporting period.

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 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
United States of America	144,667	377,011
Mainland China	29,456	111,676
European Union	81,371	56,567
Other countries and areas	10,153	13,532
	265,647	558,786

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

(b) Non-current assets

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
	Mainland China	117,194
Hong Kong	13,665	5,251
Other countries	12,993	845
	143,852	100,105

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 2019

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 2019 HK\$'000 (Unaudited)
Customer A	51,808
Customer B	40,919
Customer C	32,122
Customer D	29,465
Customer E	28,818

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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue		
Sale of goods	265,647	558,786
Other income and gains		
Bank interest income	1,048	273
Government grants: Related to income*	4,148	4,720
Exchange gains	—	4,676
Others	394	868
	5,590	10,537

* 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 2019

6. LOSS BEFORE TAX

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

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Cost of inventories sold		210,721	461,152
Depreciation of property, plant and equipment	11	14,344	17,451
Depreciation of right-of-use assets		8,491	–
Amortisation of prepaid land lease payments		–	48
Amortisation of intangible assets*	12	629	1,326
Research and development expenses		28,778	64,402
Minimum lease payments under operating leases		–	14,012
Short term and low value lease payments		59	–
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		62,242	76,220
Pension scheme contributions		6,174	7,167
Equity-settled share option expense		(2,874)	507
Equity-settled share award scheme expense		(2,915)	1,749
		62,627	85,643
Write-down of inventories to net realisable value		19,962	144,016
Impairment of prepayments and other receivables		–	8,200
Impairment of trade receivables		1,950	36,264
Exchange losses/(gains), net		4,080	(4,676)
Loss on disposal of items of property, plant and equipment		1,560	1,975
Bank interest income	5	(1,048)	(273)
Government grants	5	(4,148)	(4,720)

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

7. FINANCE COSTS

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interests on:		
bank loans	384	896
Lease liabilities	1,269	–
	1,653	896

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% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatments were available to two (2018: 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 2019 and 2018.

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

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Current — Mainland China	44	–
Current — Hong Kong	–	11
Deferred	–	3,073
Total tax charge for the period	44	3,084

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

9. DIVIDENDS

The directors do not recommend the payment of any interim dividend during the period (six months ended 30 June 2018: Nil).

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

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 925,717,000 (six months ended 30 June 2018: 852,752,000) 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 2019 and 2018.

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

	Six months ended 30 June	
	2019	2018
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Earnings		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculations	(34,348)	(237,950)
	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	925,717,000	852,752,000
Basic loss per share	HK(3.7) cents	HK(27.9) cents
Diluted loss per share	HK(3.7) cents	HK(27.9) cents

Notes to the Interim Condensed Consolidated Financial Statements

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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 2019 (Unaudited)						
At 1 January 2019:						
Cost	6,885	12,983	181,991	3,587	33,130	238,576
Accumulated depreciation	(1,370)	(7,871)	(119,359)	(2,703)	(30,532)	(161,835)
Net carrying amount	5,515	5,112	62,632	884	2,598	76,741
At 1 January 2019, net of accumulated depreciation	5,515	5,112	62,632	884	2,598	76,741
Additions	–	9,429	1,032	–	86	10,547
Disposals	–	–	(4,604)	–	(534)	(5,138)
Depreciation provided during the period (note 6)	(149)	(1,364)	(10,734)	(304)	(1,793)	(14,344)
Exchange realignment	(14)	(97)	117	–	37	43
At 30 June 2019, net of accumulated depreciation	5,352	13,080	48,443	580	394	67,849
At 30 June 2019:						
Cost	6,866	22,285	159,985	3,458	19,021	211,615
Accumulated depreciation	(1,514)	(9,205)	(111,542)	(2,878)	(18,627)	(143,766)
Net carrying amount	5,352	13,080	48,443	580	394	67,849

Notes to the Interim Condensed Consolidated Financial Statements

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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 2018 (Audited)						
At 31 December 2017 and 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	-	2,726	6,131	437	2,491	11,785
Disposals	-	-	(5,419)	(72)	(244)	(5,735)
Disposal of subsidiaries	-	-	-	-	(373)	(373)
Depreciation provided during the year	(308)	(1,120)	(25,244)	(648)	(4,993)	(32,313)
Exchange realignment	(178)	(1,714)	(2,112)	(44)	(22)	(4,070)
At 31 December 2018, net of						
accumulated depreciation	5,515	5,112	62,632	884	2,598	76,741
At 31 December 2018:						
Cost	6,885	12,983	181,991	3,587	33,130	238,576
Accumulated depreciation	(1,370)	(7,871)	(119,359)	(2,703)	(30,532)	(161,835)
Net carrying amount	5,515	5,112	62,632	884	2,598	76,741

Certain of the Group's banking facilities were secured by the Group's building with carrying values of HK\$1,772,000 on 30 June 2019 (31 December 2018: HK\$1,804,000).

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying value of HK\$3,571,000 as at 30 June 2019 (31 December 2018: HK\$3,711,000) 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

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12. INTANGIBLE ASSETS

	Trademarks HK\$'000	Software HK\$'000	Total HK\$'000
30 June 2019 (Unaudited)			
Cost at 1 January 2019, net of accumulated amortisation and impairment	207	10,588	10,795
Additions	29	224	253
Amortisation provided during the period (note 6)	(22)	(607)	(629)
Exchange realignment	–	(73)	(73)
At 30 June 2019, net of accumulated amortisation and impairment	214	10,132	10,346
At 30 June 2019:			
Cost	24,761	15,632	40,393
Accumulated amortisation	(3,476)	(5,500)	(8,976)
Impairment	(21,071)	–	(21,071)
Net carrying amount	214	10,132	10,346

	Trademarks HK\$'000	Technology licencing agreement HK\$'000	Software HK\$'000	Total HK\$'000
31 December 2018 (Audited)				
Cost at 1 January 2018, net of accumulated amortisation	245	44	11,512	11,801
Additions	–	–	692	692
Amortisation provided during the year	(33)	(44)	(735)	(812)
Exchange realignment	(5)	–	(881)	(886)
At 31 December 2018, net of accumulated amortisation	207	–	10,588	10,795
At 31 December 2018:				
Cost	24,733	4,076	15,479	44,288
Accumulated amortisation	(3,455)	(3,395)	(4,891)	(11,741)
Impairment	(21,071)	(681)	–	(21,752)
Net carrying amount	207	–	10,588	10,795

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

13. INVENTORIES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Raw materials	117,318	130,391
Work in progress	81,852	79,839
Finished goods	158,085	161,235
	357,255	371,465
Inventory provision	(172,542)	(164,613)
	184,713	206,852

The movements of inventory provision are as follows:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Balance at beginning of the period/year	164,613	24,116
Provision for the period/year	19,962	156,832
Written off as sold-out	(11,749)	(12,621)
Exchange realignment	(284)	(3,714)
Balance at end of the period/year	172,542	164,613

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

14. TRADE RECEIVABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade receivables	57,478	129,222
Impairment	(2,939)	(6,620)
	54,539	122,602

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 1 month	33,044	47,917
1 to 2 months	15,643	61,906
2 to 3 months	5,027	4,860
Over 3 months	825	7,919
	54,539	122,602

15. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Non-current assets		
Unlisted equity investments, at fair value	32,831	34,035

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Other unlisted investment, at fair value	2,694	2,635

The above unlisted investment at 30 June 2019 was a wealth management product issued by a bank in Hong Kong. It was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

Certain of the Group's banking facilities were secured by the wealth management product with a carrying value of HK\$2,694,000 as at 30 June 2019 (31 December 2018: HK\$2,635,000).

17. PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Non-current assets		
Non-current prepayments	6,102	9,959
Current assets		
Prepayments	3,404	6,999
Deposits and other receivables	29,609	42,249
Prepaid land lease payments	—	95
	33,013	49,343

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

18. CASH AND CASH EQUIVALENTS

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Cash and bank balances	105,907	95,132
Cash and cash equivalents	105,907	95,132
Cash and bank balances denominated in		
— Renminbi (“RMB”)	46,336	33,876
— United States dollars (“US\$”)	53,827	58,935
— HK\$	4,406	1,801
— Other currencies	1,338	520
Cash and cash equivalents	105,907	95,132

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

30 June 2019

20. TRADE AND BILLS PAYABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade payables	100,404	168,187
Bills payables	–	859
	100,404	169,046

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 1 month	66,188	78,762
1 to 2 months	15,373	52,929
2 to 3 months	14,871	29,154
Over 3 months	3,972	8,201
	100,404	169,046

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

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

21. OTHER PAYABLES AND ACCRUALS

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Contract liabilities	22,145	18,536
Other payables	7,073	11,225
Salary and welfare payables	9,034	14,064
Accruals	208	168
Lease liabilities	14,714	–
	53,174	43,993

22. OTHER LONG TERM PAYABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Lease liabilities	43,161	–

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

23. SHARE CAPITAL

Shares

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Issued and fully paid 952,739,000 (31 December 2018: 857,134,000) ordinary shares	9,528	8,572

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

	Number of shares in issue	Share Capital HK\$'000
At 1 January 2018 (Audited)	857,075,000	8,571
Share options exercised	59,000	1
	857,134,000	8,572
At 31 December 2018 and 1 January 2019 (Audited)	857,134,000	8,572
Issue of new shares under loan capitalization agreement (a)	95,605,000	956
At 30 June 2019 (Unaudited)	952,739,000	9,528

- (a) On 15 January 2019, the Group and its director Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the Company agreed to allot and issue 95,605,455 new shares at the issue price of HK\$0.55 per share for the capitalisation of the loans in the total principal amount of HK\$52,583,000 provided by Tang Wing Fong Terry. For details, please refer to the announcement of the Group dated 15 January 2019.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

24. 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 34 to 35 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.

25. COMMITMENTS

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Contracted, but not provided for:		
Unpaid investment amount	—	15,284
Plant and machinery	83	762
	83	16,046

Notes to the Interim Condensed Consolidated Financial Statements

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26. RELATED PARTY TRANSACTIONS

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

		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Loan from a related party:			
Tang Wing Fong Terry	(i)	–	52,583
Rental expenses:			
XinYongYi Technology Park (Heyuan) Limited ("XinYongYi")	(ii)	1,591	2,100

(i) The loans from Tang Wing Fong Terry, a shareholder and director of the Company, are unsecured, interest-free, of which the maturity is over one year. On 15 January 2019, the Company and Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the loans have been converted to capital of the Company. Further details are included in note 23.

(ii) 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\$265,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$350,000). The rental was made according to negotiation with the counterparty.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

26. RELATED PARTY TRANSACTIONS *(Continued)*

(2) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Short term employee benefits	1,679	1,368
Post-employment benefits	56	56
Equity-settled share option expenses	244	447
Total compensation paid to key management personnel	1,979	1,871

(3) Outstanding balances with related parties

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
	Due from a related party: XinYongYi	564
Due to related parties: Tang Wing Fong Terry	–	51,240
Shenzhen Yongyida Electronics Co., Ltd (“Yongyida”)	40	40
XinYongYi	17	44
	57	51,324

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 loans from Tang Wing Fong Terry.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At 30 June 2019 and 31 December 2018, the carrying amounts and fair values of the Group's financial assets and financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in other receivables, amounts due from/to related parties, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about expected future cash flows, credit risk, volatility and discount rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in an unlisted investment, which represents a wealth management product issued by a bank in Hong Kong. The Group has estimated the fair value of the unlisted investment based on the market price.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2019

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000 (Unaudited)	Significant unobservable inputs (Level 3) HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Financial assets at fair value through profit or loss	2,694	–	2,694
Equity investments designated at fair value through other comprehensive income	–	32,831	32,831
	2,694	32,831	35,525

As at 31 December 2018

	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000 (Audited)	Significant unobservable inputs (Level 3) HK\$'000 (Audited)	Total HK\$'000 (Audited)
Financial assets at fair value through profit or loss	2,635	–	2,635
Equity investments designated at fair value through other comprehensive income	–	34,035	34,035
	2,635	34,035	36,670

The Group did not have any financial liabilities measured at fair value as at 30 June 2019 and 31 December 2018.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (six months ended 30 June 2018: Nil).

28. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 was approved and authorised for issue by the board of directors of the Company on 28 August 2019.