



HongGuang Lighting Holdings Company Limited

宏光照明控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8343

Annual Report **2016**

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This report, for which the directors (the “Directors”) of HongGuang Lighting Holdings Company Limited (the “Company”, together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

Directors

Executive Directors

Mr. ZHAO Yi Wen (趙奕文)
(Chairman and Chief Executive Officer)
 Mr. LIN Qi Jian (林啟建)
 Mr. CHAN Wing Kin (陳永健)

Non-executive Director

Mr. CHIU Kwai San (趙桂生)

Independent Non-executive Directors

Professor CHOW Wai Shing, Tommy (周偉誠)
 Dr. WU Wing Kuen, B.B.S. (胡永權)
 Mr. CHAN Chung Kik, Lewis (陳仲戟)

Audit Committee

Mr. CHAN Chung Kik, Lewis (陳仲戟) *(Chairman)*
 Dr. WU Wing Kuen, B.B.S. (胡永權)
 Professor CHOW Wai Shing, Tommy (周偉誠)

Nomination Committee

Mr. CHAN Chung Kik, Lewis (陳仲戟) *(Chairman)*
 Dr. WU Wing Kuen, B.B.S. (胡永權)
 Professor CHOW Wai Shing, Tommy (周偉誠)

Remuneration Committee

Mr. CHAN Chung Kik, Lewis (陳仲戟) *(Chairman)*
 Dr. WU Wing Kuen, B.B.S. (胡永權)
 Professor CHOW Wai Shing, Tommy (周偉誠)

Compliance Officer

Mr. CHAN Wing Kin (陳永健)

Company Secretary

Mr. CHAN Wing Kin (陳永健)

Authorised Representatives

Mr. CHAN Wing Kin (陳永健)
 Mr. ZHAO Yi Wen (趙奕文)

Registered Office

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 75 Fort Street
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 Grand Cayman
 KY1-1108
 Cayman Islands

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

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 No. 8 Pinggong Er Road
 Nanping Technology Industrial Park
 Zhuhai
 PRC

Place of Business in Hong Kong

Shop Space No. 66
 Ground Floor
 Blocks 7-14
 City Garden
 No. 233 Electric Road
 Hong Kong

Corporate Information (Continued)

Cayman Islands Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Hong Kong Branch Registrar and Transfer Office

Boardroom Share Registrars (HK) Limited
31st Floor, 148 Electric Road
North Point
Hong Kong

Principal Banker

Industrial and Commercial Bank of China,
Zhuhai Gongbei Sub-branch
ICBC Tower
36 Guihuanan Road
Gongbei, Zhuhai
PRC

Compliance Adviser

Lego Corporate Finance Limited
Room 1601
16th Floor
China Building
29 Queen's Road Central
Central, Hong Kong

Auditor

BDO Limited
Certified Public Accountants
25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

Stock Code

8343

Company's Website

www.lighting-hg.com

Chairman's Statement

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I am pleased to present the first annual report of HongGuang Lighting Holdings Company Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2016.

On 30 December 2016 (the "Listing Date"), the shares of the Company were successfully listed on the GEM of the Stock Exchange (the "Listing"). On behalf of the Group, I would like to express our deep gratitude towards all parties who have assisted us in building our business over the years and during the preparation process of the Listing. The fund raised from the placing of shares of the Company will be used to promote the future development of the Group.

We are a leading light-emitting diode ("LED") bead manufacturer of the small and medium segment of backlight LED product market and are able to apply our own LED beads for production of LED lighting products in the downstream value chain. During the year ended 31 December 2016 (the "Year" or "2016"), the Group achieved an increase in revenue of approximately 19.6% from approximately RMB118.7 million to approximately RMB142.0 million over the year ended 31 December 2015 (the "Previous Year" or "2015"). The growth was mainly driven by the increase in revenue from the sales of LED beads. The Group also managed to maintain a reasonable gross profit margin at approximately 23.4% despite intense competition in the LED lighting industry.

To maintain our position as a leading manufacturer of LED beads in the PRC, we will continue to provide customization services to different customers at their requests, to strengthen our sales and marketing team and to enhance our brand recognition.

Lastly, on behalf of the Board and the management of the Group, I would like to express my sincere gratitude to all our staff for their unremitting efforts in 2016 and to all shareholders for their full support. I would also like to express my heartfelt thanks to all shareholders, investors, customers, suppliers and business partners for their valuable support.

On behalf of the Board,

Mr. Zhao Yi Wen

Chairman

Hong Kong, 27 March 2017

Management Discussion and Analysis

Business Activities

The Group is principally engaged in the design, development, manufacturing and sales of LED beads and LED lighting products in the PRC. Since the Listing, there has been no significant change in the business operations of the Group. During the Year, the Group generally recognised revenue from the sales of LED beads and LED lighting products upon delivery of our products to our customers with their acceptance of our products.

Business Review

During the Year, the Group achieved a promising performance with an increase of approximately 19.6% in the Group's revenue from approximately RMB118.7 million in 2015 to approximately RMB142.0 million in 2016, primarily attributable to our increase in revenue from the sales of LED beads.

Profit for the year under review amounted to approximately RMB5.9 million in 2016 (approximately RMB7.7 million in 2015), which represented a decrease of approximately RMB1.8 million or approximately 23.4% as compared to 2015. Such decrease was mainly due to the non-recurring listing expenses of RMB10.9 million recognised in administrative and other expenses in 2016, which represented an increase of approximately RMB7.1 million as compared to listing expenses of RMB3.8 million recognised in 2015.

The Group continues to be cautiously optimistic about the future of the LED lighting industry in the PRC and our goal is to maintain our position as one of the leading manufacturers of LED beads in the small and medium segment of the backlight LED product market in the PRC and on the other hand, continue to penetrate into the downstream of the value chain in the LED lighting industry in the PRC by developing and selling LED lighting products with our LED beads. The Group intends to achieve this goal by expanding our production capacity and continuing to develop our sales channels.

Management Discussion and Analysis (Continued)

Financial Highlights

Year ended 31 December (RMB'000)	2016*	2015	Percentage Change
Revenue	141,990	118,706	19.6%
Cost of sales	(108,802)	(90,781)	19.9%
Gross profit	33,188	27,925	18.8%
Profit before income tax expense	13,007	12,317	5.6%
Net profit	5,886	7,736	-23.9%
Earnings per share^ (RMB)	0.0196	0.0258	-24.0%
Total assets	176,663	110,905	59.3%
Total equity	114,569	53,172	115.5%
Key Financial Ratios			
Gross profit margin (%)	23.4	23.5	
Net profit margin (%)	4.1	6.5	
Return on equity (%)	5.1	14.5	
Return on assets (%)	3.3	7.0	
Current ratio	2.5	1.6	
Gearing ratio (%)	12.8	39.2	

* The Company was listed on GEM of the Stock Exchange on 30 December 2016

^ Assuming the Group has been in existence in 2015

Financial Review

Revenue

For the year ended 31 December 2016, total revenue was approximately RMB142.0 million, representing an increase of approximately 19.6% as compared with the Previous Year (2015: RMB118.7 million). The growth was mainly attributable to the increase in revenue from the sales of LED beads.

The following table sets forth the breakdown of the Group's revenue by segment:

	2016		2015	
	RMB'000	%	RMB'000	%
LED beads	137,163	96.6	114,989	96.9
LED lighting products	4,827	3.4	3,717	3.1
Total	141,990	100.0	118,706	100.0

Management Discussion and Analysis (Continued)

For the year ended 31 December 2016, revenue from LED beads amounted to approximately RMB137.2 million (2015: approximately RMB115.0 million), accounting for 96.6% of our total revenue (2015: 96.9%). The increase in revenue was mainly due to an increase in sales volume during the year.

Revenue from the LED lighting products during the year amounted to approximately RMB4.8 million (2015: approximately RMB3.7 million), representing 3.4% of our total revenue (2015: 3.1%).

Cost of Sales

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It was increased by approximately 19.8% from approximately RMB90.8 million for the year ended 31 December 2015 to approximately RMB108.8 million for the year ended 31 December 2016, reflecting the increase in the sale and production volume of our LED beads and LED lighting products, which mainly led to the increase in the cost of material used.

Gross Profit and Gross Profit Margin

The gross profit increased from RMB28.0 million for the year ended 31 December 2015 to RMB33.2 million for the year ended 31 December 2016. The gross profit margin remained relatively stable at 23.4% for the year ended 31 December 2016, compared to 23.5% for the year ended 31 December 2015. The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the periods indicated:

	Year ended 31 December 2016		Year ended 31 December 2015	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
LED beads	30,173	22.0	25,621	22.3
LED lighting products	3,015	62.4	2,304	62.0
Total gross profit/gross profit margin	33,188	23.4	27,925	23.5

The gross profit margin of both LED beads and LED lighting products remained relatively stable during 2015 and 2016.

Other Income and Gains

Other income and gains of the Group increased by 125.0% from RMB0.08 million for the year ended 31 December 2015 to RMB0.18 million for the year ended 31 December 2016, which was mainly attributable to government grants.

Selling and Distribution Expenses

The selling and distribution expenses decreased by 25% from RMB1.6 million for the year ended 31 December 2015 to RMB1.2 million for year ended 31 December 2016. The selling and distribution expenses mainly comprised of staff costs, traveling expenses and entertainment expenses. The decrease in selling and distribution expenses was mainly attributable to the decrease in average headcount of the sales and marketing staff of the Group.

Management Discussion and Analysis (Continued)

Administrative and Other Expenses

The Group's administrative and other expenses increased by 45.7% from RMB12.7 million for the year ended 31 December 2015 to RMB18.5 million for the year ended 31 December 2016. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The notable increase in administrative and other expenses was mainly generated from the professional fees used in connection with the Company's listing on the Stock Exchange.

Finance Costs

The Group's finance costs decreased by 50% from RMB1.4 million for the year ended 31 December 2015 to RMB0.7 million for the year ended 31 December 2016. Such decrease was mainly a result of the decrease in the interest on discounted bills receivable by approximately RMB0.5 million during 2015 while no such discount of bank acceptance bills has been made during 2016.

Listing Expenses

For the two years ended 31 December 2015 and 31 December 2016, the Group recorded listing expenses of RMB3.8 million and RMB10.9 million, respectively.

Income Tax Expense

Income tax expense of the Group for the Year was approximately RMB7.1 million (2015: RMB4.6 million). The increase in income tax expense was primarily attributable to the increase in listing expenses in 2016, which are non-deductible for tax purpose, resulted in a rise in effective tax rate for the Year.

Profit for the Year

The profit for the year decreased by approximately RMB1.8 million or approximately 23.4% from approximately RMB7.7 million for the year ended 31 December 2015 to approximately RMB5.9 million for the year ended 31 December 2016. Despite an increase in revenue and gross profit for 2016 compared to 2015, the decrease in profit for the year was mainly attributable to the non-recurring listing expenses of RMB10.9 million recognised in administrative and other expenses in 2016, which represented an increase of approximately RMB7.1 million as compared to listing expenses of RMB3.8 million recognised in 2015.

Net Profit Margin

The net profit margin was 4.1% for the year ended 31 December 2016, compared to that of 6.5% for the year ended 31 December 2015. The decrease was mainly due to the non-recurring listing expenses of RMB10.9 million recognised in administrative and other expenses in 2016.

Management Discussion and Analysis (Continued)

Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil), in order to cope with the future business development of the Group.

Use of Proceeds

Based on the placing price of HK\$0.63 per share, the net proceeds from the listing on 30 December 2016, after deducting the underwriting commission and other estimated expenses, amounted to approximately HK\$37.4 million. The Group intended to apply such net proceeds in accordance with the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated 16 December 2016. As at the reporting date, the Group's planned application and actual utilisation of the net proceeds is set out below:

Use of proceeds	Net proceeds	Utilised	Unutilised
	HK\$ million	HK\$ million	HK\$ million
Expansion of the Group's production capacity	21.7	—	21.7
Developing the Group's sales channels	0.8	—	0.8
Repayment of bank loans	11.4	—	11.4
General working capital of Group	3.5	—	3.5
	37.4	—	37.4

As at the reporting date, the Group has not yet utilised the approximately HK\$37.4 million of net proceeds.

Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 2016, the Group recorded net cash used in operating activities of approximately RMB3.8 million as compared to net cash generated from operating activities of approximately RMB18.9 million for the year ended 31 December 2015, primarily due to the increase in trade and bills receivables from our customers during the year ended 31 December 2016 as compared to the decrease in trade and bills receivables in the corresponding period in 2015.

As at 31 December 2016, the Group had net current assets of approximately RMB96.0 million (2015: RMB36.3 million). The Group's current ratio as at 31 December 2016 was approximately 2.5 (2015: 1.6).

As at 31 December 2016, the Group had total cash and bank balances of approximately RMB0.6 million (2015: RMB7.7 million). The decrease in total cash and bank balances was mainly due to net cash used in operating activities and investing activities at the amounts of approximately RMB3.8 million and RMB4.7 million, respectively.

Management Discussion and Analysis (Continued)

As at 31 December 2016, the Group had total available banking facilities of approximately RMB14.7 million. The total borrowing drawn down from our banking facilities as at 31 December 2016 amounted to RMB14.7 million (2015: RMB8.0 million).

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 30 December 2016, since then there was no change in the capital structure of the Group. The capital of the Company comprises only ordinary shares. As at 31 December 2016, the equity attributable to owners of the Company amounted to approximately RMB114.6 million (2015: RMB53.2 million).

Return on Equity

Return on equity (i.e. net profit for the year divided by total equity of the year and multiplied by 100%) decreased from approximately 14.5% for the year ended 31 December 2015 to approximately 5.1% for the year ended 31 December 2016. Such decrease was mainly attributable to (i) the decrease in net profit as a result of the non-recurring listing expenses of RMB10.9 million recognised in administrative and other expenses for the year ended 31 December 2016; and (ii) the increase in share capital and reserves for the year ended 31 December 2016 as a result of the Company's listing on 30 December 2016.

Return on Assets

Return on assets (i.e. net profit for the year divided by total assets of the year and multiplied by 100%) decreased from approximately 7.0% for the year ended 31 December 2015 to approximately 3.3% for the year ended 31 December 2016. Such decrease was mainly attributable to (i) the decrease in net profit as a result of the non-recurring listing expenses of RMB10.9 million recognised in administrative and other expenses for the year ended 31 December 2016; and (ii) the increase in other receivables for the year ended 31 December 2016 as a result of the increase in receivable of proceeds from share placing.

Current Ratio

Current ratio (i.e. total current assets at the end of the year divided by total current liabilities at the end of the year) increase from approximately 1.6 as at 31 December 2015 to approximately 2.5 as at 31 December 2016, primarily due to the increase in current assets of approximately 68.1% from the year ended 31 December 2015 to the year ended 31 December 2016 outweighed the increase in current liabilities of approximately 7.6% from the year ended 31 December 2016 to the year ended 31 December 2016.

Management Discussion and Analysis (Continued)

Gearing Ratio

As at 31 December 2016, the Group has gearing ratio (i.e. total debt at the end of the year divided by total equity at the end of the year and multiplied by 100%) of 12.8% compared to that of 39.2% as at 31 December 2015. The decrease was mainly due to the increase in share capital and reserves.

Significant Investments

As at 31 December 2016, there was no significant investment held by the Group (2015: Nil).

Material Acquisitions and Disposals

Save for the disposal of Zhuhai Hengqin Xinqu Hongrunda Guangdian Company Limited* in April 2016 (details of which are set out in the sub-section headed “Disposal during the Track Record Period” in the section headed “History, Reorganisation and Corporate Structure” of the Company’s prospectus dated 16 December 2016), the Group did not carry out any material acquisition nor disposal of any subsidiary during the year ended 31 December 2016.

Operating Lease Commitments

The Group leased one property in the PRC from a related party as use for office and factory during the year ended 31 December 2016. As at 31 December 2016, the Group’s operating lease commitments amounted to approximately RMB3.2 million (2015: approximately RMB3.6 million).

Capital Commitments

As at 31 December 2016, the Group has capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to RMB0.8 million (2015: RMB0.3 million).

Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

The Group’s main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group’s exposure to foreign exchange risk is insignificant. During the year ended 31 December 2016, the Group did not hedge any exposure to foreign exchange risk.

Management Discussion and Analysis (Continued)

Employees and Remuneration Policies

As at 31 December 2016, the Group employed 111 employees (2015: 110 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB6.3 million for the year ended 31 December 2016 (2015: approximately RMB7.3 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' overall remuneration is determined based on the Group's and their performance.

* For identification purpose only

Biographical Details of Directors and Senior Management

The biographical details in respect of the directors (the “Directors”) and the senior management of HongGuang Lighting Holdings Company Limited (the “Company”, together with its subsidiaries, the “Group”) as at the date of this annual report are as follows:

Executive Directors

Mr. ZHAO Yi Wen (趙奕文), aged 47, is the chairman of the Board and the chief executive officer of the Company. He was appointed as Director on 27 May 2015 and was subsequently re-designated as an Executive Director on 13 May 2016. He is one of the founders of the Group and is primarily responsible for formulating overall corporate strategies and handling day to day management of the Group. Mr. Zhao is also a director of each of HongGuang Lighting Group Company Limited (“HongGuang Lighting”) and HongGuang Lighting (International) Limited (“HongGuang International”) and the chairman and legal representative of Zhuhai HongGuang Lighting Fixture Company Limited* (“Zhuhai HongGuang”).

Prior to establishing the Group in May 2010, Mr. Zhao had years of management experience of electronic parts business. During the period between January 2004 and May 2010, Mr. Zhao was employed by Zhuhai Kedie Digital Technology Co., Ltd.* (珠海市科碟數碼科技有限公司) which mainly manufactures and sells compact disks in the PRC, as a general manager and was responsible for the overall management of its business operation.

Since 2012, Mr. Zhao has been a director of Zhuhai Ridong Weiye Technology Company Limited* (珠海日東偉業科技有限公司), a limited liability company incorporated in the PRC which mainly manufactures and trades Indium Tin Oxide films, where Mr. Zhao is responsible for the overall management of the company. Mr. Zhao attended secondary school education up to year 3 in the PRC.

Mr. LIN Qi Jian (林啟建), aged 38, was appointed as Executive Director on 13 May 2016. He is one of the founders of the Group and is primarily responsible for overseeing the overall business operation of the Group. Mr. Lin is also the supervisor and general sales manager of Zhuhai HongGuang.

Mr. Lin has over 15 years of experience in production of electronics components. From 1999 to 2016, Mr. Lin was a chairman of Zhuhai Special Economic Zone Lijia Electronics Development Company Limited* (珠海經濟特區利佳電子發展有限公司), a limited liability company incorporated in the PRC which mainly manufactures and sells photosensitive resistors where Mr. Lin is responsible for formulating sales strategies, marketing and customer services. From 2004 to 2015, Mr. Lin was appointed as supervisor of Zhuhai Kedie Digital Technology Co., Ltd.* (珠海市科碟數碼科技有限公司), a private company in the PRC, where he was responsible for monitoring the operation of the company. Mr. Lin attended secondary school education up to year 2 in the PRC.

Biographical Details of Directors and Senior Management (Continued)

Mr. CHAN Wing Kin (陳永健), aged 36, was appointed as Director on 27 May 2015 and subsequently re-designated as an Executive Director on 13 May 2016. He is also the company secretary and the compliance officer of our Company and the director of HongGuang Lighting and HongGuang Lighting (Hong Kong) Holdings Limited (“HongGuang Hong Kong”). Mr. Chan is primarily responsible for the financial management of the Group.

Mr. Chan obtained a bachelor degree of economics and finance with first class honours from The University of Hong Kong in December 2003 and a master’s degree of economics from The University of Hong Kong in December 2004. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants since January 2012, a certified internal auditor of the Institute of Internal Auditors since March 2012, and a certified fraud examiner of the Association of Certified Fraud Examiners since March 2014.

Mr. Chan has over twelve years of experience in electronics industrial sector and accounting and internal controls sector. Prior to joining the Group, Mr. Chan was a purchasing supervisor in Jetcrown Industrial (Dongguan) Limited from September 2004 to April 2008 and was responsible for monitoring the daily purchasing operations and the staff recruitment of the company. From July 2008 to April 2010, Mr. Chan was an accountant in KPMG, where he had assisted in a number of audit assignments for a number of major corporate clients of KPMG. In April 2010, Mr. Chan joined Deloitte Touche Tohmatsu as an analyst of the Enterprise Risk Services Department. He was subsequently promoted to the position of manager before his resignation in February 2015. During his term of employment in Deloitte Touche Tohmatsu, Mr. Chan participated in internal controls, risk management and corporate governance advisory projects.

Non-executive Directors

Mr. CHIU Kwai San (趙桂生), aged 54, was appointed as Non-executive Director on 13 May 2016. He is primarily responsible for monitoring the executive activities and providing strategic advice to the Group. Mr. Chiu is also a director of each of HongGuang Lighting and HongGuang Hong Kong and the vice chief director of Zhuhai HongGuang.

Mr. Chiu has over 15 years of experience in trading, sales and management. Since 2000, Mr. Chiu has been a director of Success Royal Limited, a private company incorporated in Hong Kong which mainly manufactures ink and glue, etc., where Mr. Chiu is responsible for managing the operation of the company. Mr. Chiu attended secondary school education up to year 3 in the PRC.

Biographical Details of Directors and Senior Management (Continued)

Independent Non-executive Directors

Professor CHOW Wai Shing, Tommy (周偉誠), aged 57, was appointed as Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Prof. Chow is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Prof. Chow obtained his bachelor degree of science in electrical and electronic engineering with first class honour from Sunderland Polytechnic (currently known as the University of Sunderland) in the United Kingdom in June 1984 and a doctoral degree of philosophy for his research in the electrical engineering field from the same university in April 1988. Prof. Chow is currently the professor of the Department of Electronic Engineering of the City University of Hong Kong.

Prof. Chow had served over the years as (i) the chairman and member of a number of committees of Hong Kong Institution of Engineers (“HKIE”); (ii) as a member of the CAI discipline advisory panel of HKIE; and (iii) as a professional assessment assessor for HKIE. During the period between 1998 and 2004, Prof. Chow served as a member of the Electronics & Communication Industry Safety & Health Committee of the Occupational Safety & Health Council. Prof. Chow is currently also a member of the Public Affairs Forum of the HKSAR Government.

Dr. WU Wing Kuen, B.B.S. (胡永權), aged 60, was appointed Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Dr. Wu is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Dr. Wu obtained a doctoral degree of business administration (Honoris Causa) from the Clayton University in the US in June 1989. Dr. Wu has over 23 years of experience in real estate investment. He has been the director of Jet View Investment Limited since December 1991 and the director of Jade Mind Investment Limited since October 2004. Both companies mainly invest in real estate.

Dr. Wu was awarded a Bronze Bauhinia Star from the HKSAR Government in July 2012. Dr. Wu is also currently a voting member of the Hong Kong Jockey Club and the president of the Sha Tin District Community Fund. Dr. Wu had also served the community under various other positions in the past. He was a member of the Sha Tin District Fight Crime Committee, a member of the Appeal Tribunals Panel of the Planning and Lands Branch of the Development Bureau of the HKSAR Government.

Dr. Wu has been the independent non-executive director of Nanfang Communication Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1617), principally engaged in the manufacturing and sale of optical fibre cables since November 2016.

Biographical Details of Directors and Senior Management (Continued)

Mr. CHAN Chung Kik, Lewis (陳仲戟), aged 44, was appointed as Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Mr. Chan is also the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Chan obtained a bachelor degree of commerce in accounting from the University of Canberra in Australia in September 1997. He is currently a fellow of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

Mr. Chan has more than 19 years of experience in auditing, accounting and corporate finance. From May 1997 to February 2001, Mr. Chan held various positions in Grant Thornton, an accounting firm, where he last served as audit supervising senior and was primarily responsible for providing auditing services. From February 2001 to February 2005, he held various positions at Ernst & Young, an accounting firm, where he last served as manager and was primarily responsible for audit of listed and non-listed companies in Hong Kong and China. From March 2005 to March 2006, he served as a group finance manager of Tianjin Development Holdings Limited, a company which is listed on the Main Board of the Stock Exchange (Stock Code: 882) and engaged in, *inter alia*, (i) utilities including supply of electricity, water and heat and thermal power; (ii) hotel; (iii) electrical and mechanical including the manufacture and sale of presses, mechanical and hydroelectric equipment and large scale pump units; and (iv) strategic and other investments including investments in associates which mainly manufactures and sells elevators and escalators and provision of port service in Tianjin. From August 2006 to May 2007, Mr. Chan served as the financial controller and company secretary of Tianjin Lishen Battery Joint-Stock Co., Ltd. (天津力神電池股份有限公司). From July 2007 and February 2015, Mr. Chan served as the chief financial officer of Xingye Copper International Group Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 505) and engaged in the manufacturing and sales of high precision copper plates and trips, trading of raw materials, provision of processing services and management of a portfolio of investment, where he was responsible for the overall financial management functions of the group. From July 2007 to May 2008 and from June 2009 to May 2015, Mr. Chan also served as the company secretary of the same company. Since May 2015, Mr. Chan has served as the chief financial officer and the joint company secretaries of Denox Environmental & Technology Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1452) and engaged in the design and development, manufacturing, sales and marketing of plate-type DeNOx catalysts.

Mr. Chan has also been the independent non-executive director of (i) Kwan On Holdings Limited between March 2015 and September 2016, a company which was previously listed on GEM (Stock Code: 8305) and was subsequently transferred to the Main Board of the Stock Exchange (Stock Code: 1559) on 15 August 2016 and engaged as a main contractor in the provision of (a) waterworks engineering services; (b) road works and drainage services; (c) landslip preventive and mitigation works to slopes and retaining walls services; and (d) building works in Hong Kong; and (ii) Shandong Xinhua Pharmaceutical Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 719) and the Shenzhen Stock Exchange (Stock Code: 000756) and engaged in the business of development, manufacture and sale of bulk pharmaceuticals, preparations and chemical products, since May 2014.

Biographical Details of Directors and Senior Management (Continued)

Senior Management

Ms. QI Xiang Ling (綦香玲), aged 46, is the financial controller of Zhuhai HongGuang. Ms. Qi joined the Group in August 2010. She is mainly responsible for supervising financial reporting, corporate finance, treasury, tax and other financial related matters of the Group. Ms. Qi graduated from Guangdong Province Intermediate Vocational School* (廣東省中等專業學校) majoring in financial accounting in July 1997. Ms. Qi obtained the elementary level qualification in accounting conferred by the Ministry of Finance of the PRC in May 2001.

Prior to joining the Group, Ms. Qi worked as an accountant at Zhuhai Yuntian Dianqi Co., Ltd.* (珠海雲田電器有限公司) from January 2005 to December 2005. From June 2006 to August 2010, she worked as the finance manager of Zhuhai City Jiajule Zhuangshi Cailiao Company Limited* (珠海市家居樂裝飾材料有限公司).

Mr. XU Jian Hui (許建輝), aged 60, is the director of Zhuhai HongGuang. Mr. Xu joined the Group as a general manager of Zhuhai HongGuang in March 2011 and was subsequently appointed as director of the same company in November 2014. Mr. Xu is primarily responsible for daily operation, administrative and productions management of Zhuhai HongGuang. Mr. Xu obtained a professional certificate in computer application from Shantou City Zhigong Yeyu University* (汕頭市職工業餘大學) in July 1997 and obtained an assistant engineer practising certificate from the Engineering Technology Professional Title Committee of Shantou Electronic Industry Corporation* (汕頭市電子工業總公司工程技術初級職務評審委員會) in December 1995.

Prior to joining the Group, during the period between May 1987 and June 1997, Mr. Xu was the business plan coordinator at Shantou Metallic Material Corporation* (汕頭市金屬材料總公司), where he was responsible for the resources coordination and management in the company. From June 1997 to July 2002, he worked as a clerk at Shantou Kexin Development Corporation* (汕頭市科信發展總公司), where he was responsible for the daily administration of the company. From June 2003 to July 2008, Mr. Xu worked as the deputy general manager at Jieyang Dong Huang Culture Development Limited* (揭陽東煌文化發展有限公司), where he was primarily responsible for the administration and production management of the company. From October 2008 to April 2010, he worked as the deputy general manager at Zhuhai Special Economic Zone Hai Na Laser Manufacture Limited* (珠海經濟特區海納激光制作有限公司), where he was primarily responsible for the production management of the company.

* For identification purpose only

Corporate Governance Report

Corporate Governance Practices

The Board is committed to maintaining a good corporate governance standard, with the chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to shareholders and creditors. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for the provision A.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual (Please refer to the paragraph entitled "Chairman and Chief Executive" on page 22), the Board is satisfied that the Company had complied with the CG Code during the period from the date of the Listing to 31 December 2016.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by the Directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the period from the date of the Listing to 31 December 2016.

Board of Directors

Board Composition

As at 31 December 2016, the Board comprised of three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The composition of the Board is as follows:

Executive Directors

Mr. Zhao Yi Wen (*Chairman and Chief Executive Officer*)

Mr. Lin Qi Jian

Mr. Chan Wing Kin

Non-executive Director

Mr. Chiu Kwai San

Independent Non-executive Directors

Professor Chow Wai Shing, Tommy

Dr. Wu Wing Kuen, *B.B.S.*

Mr. Chan Chung Kik, Lewis

Corporate Governance Report (Continued)

Functions, Roles and Responsibilities of the Board

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the chief executive officer and senior management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group. The abovementioned personnel should report back and obtain prior approval from the Board before making any significant decisions or entering into any significant commitments on the Company's behalf, and they may not exceed any authority given to them by resolutions of the Board or the Company.

The Non-executive Directors do not involve general management and day-to-day operation of the Group. However, they will provide advice on strategic direction for the Group in the Board meetings.

The Independent Non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board, on issues of strategic direction, policies, development, performance and risk management. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, they scrutinise the Company's performance in achieving corporate goals and objectives and monitor performance reporting. By doing so, they are able to contribute positively to the Company's strategy and policies through independent, constructive and informed comments at Board and committee meetings.

Each Director has confirmed that he can give sufficient time and attention to the Company's affairs, and has regularly provided information on the number and nature of offices held in public companies or organisations and other significant commitments, including the identity of such companies or organisations and an indication of the time involved.

The Company has arranged appropriate insurance cover for Directors' liabilities in respect of legal actions against them for corporate activities.

Corporate Governance Report (Continued)

Board/Board Committee Meetings

The Board is scheduled to meet in person or through other electronic means of communication at least four times a year to, among other matters, review past financial and operating performance and discuss the Group's direction and strategy. An agenda and accompanying papers together with all appropriate information will be sent to all Directors at least three days before each Board or committee meeting so as to ensure timely access to relevant information. Appropriate notice of at least 14 days for regular Board meetings and reasonable notice for other Board committee meetings will be given to all Directors, who will all be given an opportunity to attend and include matters in the agenda for discussion. Senior management will be invited to join all Board meetings to enhance communication between the Board and management; the Board and each Director will also have separate and independent access to senior management whenever necessary. The company secretary will take detailed minutes of the meetings and keep records of matters discussed and decisions resolved at the meetings, including any concerns raised or dissenting views expressed by Directors, and the voting results of Board meetings fairly reflect Board consensus. Both draft and final versions of the minutes will be sent to all Directors for their comments and records respectively, within a reasonable time after each meeting, and such minutes will be open for inspection with reasonable advance notice by any Director. Directors are entitled to have access to board papers and related materials, and any queries will be responded to fully. The Company was listed on 30 December 2016. There was no board meeting held from the date of the Listing to 31 December 2016.

Upon reasonable request to the Board, the Directors can seek independent professional advice in performing their duties at the Company's expense, if necessary. According to the current Board's practice, should a potential conflict of interest involving a substantial shareholder or Director of the Company arise, the matter will be discussed in a Board meeting, as opposed to being dealt with by written resolution. Independent Non-executive Directors with no conflict of interest will be present at such meetings. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director concerned will declare his/her interest and abstains from voting.

Corporate Governance Report (Continued)

Meetings Held and Attendance

The composition of the Board and the committees, and the individual attendance records of each Director at the Board and committees' meeting during the year are set out below:

Name of Directors	Meetings attended/Meetings held					
	Board meetings	Audit committee meetings	Remuneration committee meetings	Nomination committee meetings	Annual general meetings	Extraordinary general meetings
Executive Directors						
Mr. Zhao Yi Wen (<i>Chairman and Chief Executive Officer</i>)	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Lin Qi Jian	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Chan Wing Kin	N/A	N/A	N/A	N/A	N/A	N/A
Non-executive Director						
Mr. Chiu Kwai San	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Director						
Professor Chow Wai Shing, Tommy	N/A	N/A	N/A	N/A	N/A	N/A
Dr. Wu Wing Kuen, <i>B.B.S</i>	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Chan Chung Kik, Lewis	N/A	N/A	N/A	N/A	N/A	N/A

Note 1: Given the date of the Listing was shortly before 31 December 2016, no Board meeting, audit committee meeting, remuneration committee meeting, nomination committee meeting, annual general meeting and extraordinary meeting was held from the listing date to 31 December 2016.

Corporate Governance Functions

No corporate governance committee of the Company has been established. In compliance with code provision D.3 of the CG Code, the Board as a whole is responsible for performing the corporate governance duties including: (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Corporate Governance Report (Continued)

Chairman and Chief Executive

Mr. Zhao Yi Wen ("Mr. Zhao") is the chairman of the Board who is primarily responsible for formulating overall corporate strategies. Mr. Zhao is also the chief executive officer of the Company who is primarily responsible for day-to-day management of the Group. In accordance with 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 and their respective responsibilities should be clearly defined in writing. In view of Mr. Zhao being one of the founders of the Group and has been operating and managing Zhuhai HongGuang, the operating subsidiary of the Company, since 2010, the Board believes that it is in the best interest of the Group to have Mr. Zhao taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

Code provision A.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

Given the date of the Listing was shortly before 31 December 2016, no meeting between the chairman of the Board and the Non-executive Directors was held.

Continuing Professional Development

Pursuant to the Code Provision A.6.5 under Appendix 15 of the GEM Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses.

During the Year, all Directors have participated in continuing professional development by attending training courses organised by the Company and reading relevant materials on topics related to corporate governance and regulatory matters. The Directors have confirmed that they have received the trainings as follows:

Name of Directors	Type of trainings
Mr. Zhao Yi Wen (<i>Chairman and Chief Executive Officer</i>)	A, B
Mr. Lin Qi Jian	A, B
Mr. Chan Wing Kin	A, B
Mr. Chiu Kwai San	A, B
Professor Chow Wai Shing, Tommy	A, B
Dr. Wu Wing Kuen, <i>B.B.S</i>	A, B
Mr. Chan Chung Kik, Lewis	A, B

A: attending seminars/conferences/forums

B: reading newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities

Corporate Governance Report (Continued)

Board Committees

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees are established with written terms of reference, which have complied with the CG Code and are available on the Stock Exchange website at www.hkexnews.hk and the Company's website at www.lighting-hg.com and are available to shareholders upon request. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board committees will report back to the Board on their decisions or recommendations.

Audit Committee

The Company established the Audit Committee on 2 December 2016 with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee consists of all the Independent Non-executive Directors, namely, Mr. Chan Chung Kik Lewis, Dr. Wu Wing Kuen and Professor Chow Wai Shing, Tommy. Mr. Chan Chung Kik Lewis is the chairman of the Audit Committee. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process and the internal control and risk management systems of the Group.

The Company was listed on 30 December 2016. During the period from the date of the Listing to 31 December 2016, no meeting was being held for Audit Committee.

Remuneration Committee

The Company established the Remuneration Committee on 2 December 2016 with written terms of reference in compliance with the GEM Listing Rules. The Remuneration Committee consists of three members, namely, Mr. Chan Chung Kik Lewis, Dr. Wu Wing Kuen and Professor Chow Wai Shing, Tommy. Mr. Chan Chung Kik Lewis is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration of the Directors and senior management of the Company, determine on behalf of the Board specific remuneration packages and conditions of employment for the Directors and senior management of the Company, and to assess the performance of the Directors and senior management of the Company.

The Company was listed on 30 December 2016. During the period from the date of the Listing to 31 December 2016, no meeting was being held for Remuneration Committee.

Nomination Committee

The Company established the Nomination Committee on 2 December 2016 with written terms of reference in compliance with the GEM Listing Rules. The Nomination Committee consists of three members, namely, Mr. Chan Chung Kik Lewis, Dr. Wu Wing Kuen and Professor Chow Wai Shing, Tommy. Mr. Chan Chung Kik Lewis is the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

Corporate Governance Report (Continued)

The Company was listed on 30 December 2016. During the period from the date of the Listing to 31 December 2016, no meeting was being held for Nomination Committee.

The Board adopted the view of Board diversity approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board has in its composition a balance of skills, expertise, qualifications, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs. The Board will consider a number of aspects when selecting candidates, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will ultimately be based on merit and the contribution that the selected candidates will bring to the Board, having due regard for the benefits of diversity on the Board.

Accountability and Audit

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business.

Accordingly, the Board has prepared the financial statements of the Company on a going concern basis. The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual, half-yearly and quarterly reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, and reports to the regulators as well as to information required to be disclosed pursuant to statutory requirements.

The above statements, which should be read in conjunction with the independent auditor's report, are made with a view to distinguishing for Shareholders how the responsibilities of the Directors differ from those of the auditor in relation to the financial statements.

Having made appropriate enquiries and examined major areas which could give rise to significant financial exposures, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year, the Directors considered the Group has applied appropriate accounting policies consistently, made judgments and estimates that are reasonable in accordance with applicable accounting standards.

Corporate Governance Report (Continued)

The responsibility of the Company's auditor, BDO Limited, is set out in the section headed "Independent Auditor's Report" on pages 50 to 52 of this annual report.

For the year ended 31 December 2016, the fees in respect of the audit services provided to the Group by BDO Limited, is set out as follows:

Nature of services	For the year ended 31 December 2016 RMB'000
Audit services	514
Audit services relating to the listing of the Company's shares on the Stock Exchange	496

Risk Management and Internal Control

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board of Directors, the Audit Committee and the Senior Managements. The Board of Directors determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management should identify risks that would adversely affect the achievement of the Group's objectives, and assess and prioritize the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners should then be established for those risks considered to be significant.

Corporate Governance Report (Continued)

In addition, the Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are to be identified and recommendations to be proposed for improvement. Significant internal control deficiencies should be reported to the Audit Committee and the Board of Directors on a timely basis to ensure prompt remediation actions are taken.

The Board of Directors had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board of Directors considers the Group's risk management and internal control systems are effective.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of Securities & Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

Company Secretary

Mr. Chan Wing Kin, an Executive Director, is the Company Secretary of the Group. Please refer to his biographical details as set out on page 14 of this annual report.

For the year ended 31 December 2016, Mr. Chan has undertaken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

Compliance Officer

Mr. Chan Wing Kin, an Executive Director, is the Compliance Officer of the Group. Please refer to his biographical details as set out on page 14 of this annual report.

Corporate Governance Report (Continued)

Sufficiency of Public Float

Based on the information that is publicly available and within the knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by the public as at the date of this report.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to Convene EGMs and Procedures

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. Any one or more member(s) holding at the date of the deposit of the requisition not less than one tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong at Shop Space No. 66, Ground Floor, Blocks 7-14, City Garden, No. 233 Electric Road, Hong Kong for the attention of the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

If within 21 days of such deposit, the Board fails to proceed duly to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All such enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the company secretary.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Right to Put forward Proposals at General Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Companies Law (as revised) of the Cayman Islands, as amended, modified and supplemental from time to time.

However, pursuant to the Company's articles of association, Shareholders who wish to move a resolution may by means of requisitions convene an EGM following the procedures set out above.

Corporate Governance Report (Continued)

Right to Propose a Person for Election as a Director

If a shareholder of the Company (the “Shareholder”) wishes to propose a person other than a Director, for election as a new Director of the Company, the Shareholder must deposit a written notice (the “Notice”) to the Company’s principal place of business in Hong Kong at Shop Space No. 66, Ground Floor, Blocks 7-14, City Garden, No. 233 Electric Road, Hong Kong for the attention of the Company Secretary of the Company.

The Notice must state clearly the name, the contact information of the Shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person’s biographical details as required by Rule 7.50(2) of the GEM Listing Rules, and be signed by the Shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent (the “Letter”) signed by the person proposed to be elected on his/her willingness to be elected as a Director.

The period for lodgment of the Notice and the Letter will commence no earlier than the day after the dispatch of the notice by the Company of the general meeting appointed for election of Directors and end no later than seven (7) days prior to the date of such general meeting.

The Notice will be verified with the Company’s branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the nomination committee of the Company and the board of Directors of the Company to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the AGM, the annual, interim and quarterly reports, notices, announcements and circulars and the Company’s website at www.lighting-hg.com.

Constitutional Documents

During the year ended 31 December 2016, there had been no significant change in the Company’s constitutional documents. The memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

Environmental, Social and Governance Report

The Company presents this ESG Report (the “Report”) for the year ended 31 December 2016 (“Reporting Period”), in accordance with Appendix 20 – Environmental, Social and Governance Reporting Guide published by the Hong Kong Exchanges and Clearing Limited and based on the material aspects of the Group and stakeholders.

This report serves to provide details of the Company's ESG policies and initiatives of its major operating segment in the People's Republic of China (the “PRC”), which is principally engaged in the design, development, manufacturing and sale of the LED beads and LED lighting products.

The board of Directors has the overall responsibility for the Company's ESG strategy and reporting, monitoring and managing the ESG-related risks. The management is responsible for evaluating effectiveness of the ESG risk management and internal control systems and the management confirms that these systems are effective to mitigate our ESG-related risks. Assessment of ESG status and progress are conducted on an ongoing basis. To understand the concerns of various stakeholders, we have engaged and discussed with various business functions and management personnel, and identified the below materiality of the ESG issues to be included in this Report:

ESG Aspects	Material ESG issues
A. Environmental	
Emissions	Air emission, waste management, greenhouse gas emission
Use of resources*	Use of energy, use of packaging materials
The environment and natural resources	Noise pollution
B. Social	
Employment	Employment practices and equal opportunity
Health & safety	Workplace health and safety
Development and training	Staff development and training
Labor standards	Anti-child and forced labor
Supply chain management	Sustainable supply chain
Product responsibility	Products and services quality assurance, data privacy
Anti-corruption	Anti-corruption
Community investment	Supporting the community

* Remarks: Since water is not a primary input by the Company in our production process, hence disclosure on the water usage is not applicable.

Environmental, Social and Governance Report (Continued)

A. Environmental

Emissions

In demonstrating our commitment to preserve the environment and mitigate pollution, our Zhuhai HongGuang Production Plant has been accredited, since October 2011, with ISO 14001:2004 certification, an internationally recognised standard for an environmental management system, which aims at assisting organisations on identifying, managing, monitoring and controlling their environmental issues and complying with environmental laws, regulations and other applicable requirements, including but not limited to the Environmental Protection Law of the PRC and 廣東省地方標準《大氣污染物排放限值》(DB44/27-2001).

No material non-compliance case was noted in relation to environmental laws and regulations in Hong Kong and the PRC during the Reporting Period.

Air Emission

In our production activities, gases containing small amount of (i) tin and its compounds (ii) benzene (iii) methylbenzene (iv) dimethylbenzene and (v) volatile organic compounds (“VOCs”) are generated.

The Group has installed gas purifying system to control the amount of air pollutant emission from our production activities. Besides, we monitor the emission by engaging independent test laboratory to perform regular test on our emission concentration and emission speed of the abovementioned air pollutants to ensure that the amounts of emission complies with regulatory limits.

Hazardous and non-hazardous waste management

During the Reporting Period, hazardous waste such as waste organic solvent is generated. Non-hazardous waste from our production is considered immaterial by management personnel, hence disclosure on non-hazardous waste is not applicable.

We established waste management guidelines in controlling the disposal and generation of waste. For example, secure storage area is established for hazardous waste. Furthermore, licensed chemical waste collector is engaged in handling our hazardous waste, resulting in minimal contamination and impact to our environment.

Greenhouse Gas Emission

The major sources of our greenhouse gases are from the use of energy resources. For example, indirect emission of carbon dioxide comes from our usage of electricity. To reduce the greenhouse gas emission, we implemented energy saving measures to minimize the consumption of energy resources. Please refer to the “A2 Use of Resources” section below for detailed measures implemented.

Environmental, Social and Governance Report (Continued)

Use of Resources

The Company strives to improve environmental performance continuously, which is achieved by setting objectives on enhancing the efficiency of production. The key areas of concern are the usage of electricity and packaging materials. The efficient uses on these resources are essential for enhancing the sustainability of the community.

In our production activities, the major type of energy consumed is electricity. The major types of packaging material used for finished products are cartoon boxes and antistatic bags.

In order to achieve the goal of effective energy conservation, 《資源能源節約管理程序》 is established to define the responsible departments/personnel and relevant energy saving initiatives. For example, high energy efficiency lighting equipment such as LED lighting has been installed to replace traditional light bulbs. Routine behavioral measures are also communicated to employees for the effective implementation of resources saving initiatives. Records of electricity consumption have been maintained for evaluation of efficiency.

The Environment and Natural Resources

The Company is committed to minimizing the environmental impacts arising from the production activities. To demonstrate our responsibility towards environmental conservation, we continuously monitor our impacts in accordance to our ISO 14001:2004 requirements. Significant risks are assessed and reviewed based on our established 《環境因素識別評價與更新控制程序》. We respond to these risks promptly with appropriate mitigating actions. We are committed to providing adequate and appropriate resources in reducing the adverse impacts to the environment.

During the production, mild noise is generated by our machineries. The noise may cause undesired nuisance to the surrounding neighbourhood. To mitigate the noise nuisance, we maintain our machineries regularly to ensure they function properly and noisy machineries are sited as far as possible from sensitive receivers.

B. Social

Employment

Employee is the foundation of success of the Company. It is the policy of the Company to maintain a working environment that complies with the Labour Law of the PRC, Labour Contract Law of the PRC, PRC Social Insurance Law and Regulations on Management of Housing Provident Fund.

We aim to provide a harmonious working environment for our employees through competitive remuneration packages that are comparable to the market standard and structured to commensurate with individual responsibilities, qualifications, experiences and performance. Annual review on staff performance is conducted and the appraisal result provides basis for salary review. We treasure staff who share the same values and aspirations with the Company, and provide adequate development opportunities accordingly.

Environmental, Social and Governance Report (Continued)

The Company also believes that a good work-life balance can help reduce the stress that staff are bearing, thereby increasing overall productivity. Working hours and leaves are determined with consideration of both operation needs and statutory requirements to ensure staff have sufficient rest and personal life.

Opportunities should be fairly given based on the performance of employees. This belief is further enhanced by our equal opportunity statement, in which diversity of employee is respected on their personal characteristics, including age, sex, nationality, disability and religion. No discrimination is tolerated, and employees should report discrimination cases to the management if suspected.

Employee recruitment, dismissal, movement, compensation, working hours, rest periods, welfare, and other employment practices are clearly documented in the Human Resources Policy and Employee Handbook of the Company.

No material non-compliance case was noted in relation to employment laws and regulations in Hong Kong and the PRC during the Reporting Period.

Health and Safety

The Company realises that the health and safety of employees are of paramount importance to us and therefore, we make every effort to build and maintain a working environment which is free of workplace health and safety incidents and to comply fully with Production Safety Law of the PRC and Fire Control Law of the PRC.

The Company has published booklets on occupational health and safety for circulation to our employees to raise the awareness of occupational health and safety among our employees. We have also established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, warehouse safety, work-related injuries and emergency and evacuation procedures.

No material non-compliance case was noted in relation to health and safety laws and regulations in Hong Kong and the PRC during the Reporting Period.

Development and Training

As part of the Company's initiatives for improving business performance and encouraging personal development of our staff, the Company strives to provide various learning opportunities to our employees.

The Company has provided training across different operational functions, including induction training for new employees, technical training, and training to enhance the employees' knowledge in safety measures when performing their duties.

Environmental, Social and Governance Report (Continued)

Labour Standards

The Company believes children should enjoy their childhood and be free from the pressure of work. Furthermore, no one should be forced to work by any means, such as abuse and physical punishment. No child and forced labour is allowed under our human resources practices. We ensure our employment practices are in compliance with the Labour Law of the PRC and Labour Contract Law of the PRC. For example, our recruiters would check the identity cards of job applicants to ensure that under-aged applicant would not be employed.

No material non-compliance case was noted in relation to child and forced labour laws and regulations in Hong Kong and the PRC during the Reporting Period.

Supply Chain Management

Suppliers have a direct impact on the Company's sustainability performance. To oversee the suppliers' environmental and social performance, we strive to incorporate green practices in our procurement activities.

Suppliers' environmental and social performance, such as their choice of raw materials, use of natural resources, product health and safety, employment practices and occupational safety measures, are taken into account in our supplier selection process. On-going monitoring is also performed on their performance through our annual supplier appraisal.

Product Responsibility

Products and Services Quality Assurance

Continuous customer satisfaction and support are essential for the organization's growth and profitability. The Company is committed to providing products and services that meet customer requirements consistently and that complies with regulations such as Product Quality Law of the PRC and Law of the PRC on the Protection of Consumer Rights and Interests. We deliver consistently high product quality by adopting internationally recognised standard on quality control practices, including the ISO 9001:2008 quality management system and ISO 14001:2004 environmental management system.

We have a team of quality control personnel, which is responsible to examine products at each key stage of production to ensure that the quality of the products can meet our internal standards and customers' requirements.

The Company values feedbacks from our customers for continuous improvement. The staff members of our sales and marketing team regularly pay visits to and communicate with our customers to collect their feedback on the quality, preferences, improvements and market demands of our products. Our sales and marketing team share this information with our production team and research and development team in order to improve the existing products and/ or services.

Environmental, Social and Governance Report (Continued)

Data Privacy

The Company has implemented certain internal control measures in ensuring the confidentiality of our operation data so as to protect our suppliers, business partners, customers and ourselves. The Company's employment contract and Code of Conduct section in the Employee Handbook, clearly define the requirements in relation to protecting Company data, for example general staff is not allowed to photocopy company documents without prior management approval. Staff are required to strictly adhere to the Company's data privacy policy, and any acts breaching data confidentiality are prohibited.

No material non-compliance case was noted in relation to product and service quality laws and regulations in Hong Kong and the PRC during the Reporting Period.

Anti-corruption

Corruption, bribery, money-laundering, and any other kinds of business fraud are strictly prohibited in the Company. The Company closely observes relevant laws and regulations such as the Prevention of Bribery Ordinance in Hong Kong. Employees and the management must demonstrate integrity in every business operation, with reference to the Code of Conduct section in the Employee Handbook established by the Company. No tolerance is given to fraud.

To enhance the governance of the Company, internal controls are established in mitigating the risk of frauds. Policy is established to govern investigation and follow-up procedures of reported fraud incidents. The management is responsible for developing and ensuring the effectiveness of internal controls. Any abnormality should be reported to the independent management for investigation. Whistle-blowing channel is also established for the reporting of violations of professional conducts.

No material non-compliance case was noted in relation to business fraud laws and regulations in Hong Kong and the PRC during the Reporting Period.

Community Investment

The Company cares about its community, and is willing to give our helping hands to the needy in order to promote the harmony and stability of the society. The management is aware of the needs of the society, and seeking for any opportunity to enhance the sustainability of the community, such as regular social welfare activities. We participated in local community events during the Reporting Period.

Directors' Report

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2016.

Corporate Reorganisation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 May 2015.

In preparing for the Listing, the Group underwent the Reorganisation (as defined under note 1 to the consolidated financial statements) and the Company became the holding company of the companies comprising the Group upon the completion of the Reorganisation. Details of the Reorganisation are set out in the Company's Prospectus dated 16 December 2016. The shares of the Company were listed on GEM of the Stock Exchange with effect from 30 December 2016.

Principal Activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements.

Business Review

Further discussion and analysis of these activities, including a business review of the Group for the Year, can be found in the Management Discussion and Analysis as set out on pages 5 to 12 of this annual report. These discussions form part of this Directors' report.

Results

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statements of profit or loss and other comprehensive income on page 53.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

Financial Summary

A summary of the published results, assets and liabilities of the Group for the last three financial years is set out on page 96. The summary does not form part of the audited consolidated financial statements.

Directors' Report (Continued)

Reserves

Movements in the reserves of the Group and the Company during the year under review are set out in the consolidated statements of changes in equity on page 55 and note 26 to the consolidated financial statements, respectively.

Property, Plant and Equipment

Details of movements of the property, plant and equipment of the Group during the Year are set out in note 15 to the consolidated financial statements.

Share Capital

Details of the movements during the Year in the share capital of the Company are set out in note 25 to the consolidated financial statements.

Purchase, Sales or Redemption of the Company's Listed Securities

During the period from the date of the Listing to 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Distributable Reserves of the Company

Pursuant to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and retained profits of the Company are distributable to the shareholders. As at 31 December 2016, the Company's reserves available for distribution to the shareholders of the Company amounted to approximately RMB45.3 million.

Major Customers and Suppliers

For the year ended 31 December 2016, the largest customer accounted for approximately 31.1% (2015: 34.0%) of our total revenue. For the year ended 31 December 2016, the percentage of revenue derived from the five largest customers in aggregate was approximately 79.3% (2015: 76.4%).

For the year ended 31 December 2016, the largest supplier accounted for approximately 53.9% (2015: 21.6%) of the total purchases. For the year ended 31 December 2016, the five largest suppliers in aggregate accounted for approximately 85.9% (2015: 65.3%) of the total purchases.

None of the Directors, their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had an interest in any of the Group's five largest customers and suppliers during the year ended 31 December 2016.

Directors' Report (Continued)

Principal Risks and Uncertainties

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group.

Reliance on Downstream LED Lighting Industry Risk

Our LED beads are mainly used for onward production of small or medium-sized backlight LED products, which have end-use applications such as displays in smartphones and LCD panels in tablet computers, etc. As such, our results of operations and financial performance are dependent upon the prospects of these downstream industries.

Our business relies on the LED lighting industry and consumer electronics market as our customers are generally manufacturers of small and medium-sized backlight LED modules/panel generally for the displays in smartphones and LCD panels of tablet computers and manufacturers of other electronics products. The demand from our customers is therefore dependent on the demand and supply dynamics of the consumer electronics market and the LED lighting industry. As such, the demand for our LED beads may fluctuate according to the cycles of the consumer electronics market and the LED lighting industry.

The demand for our LED beads is also affected by the business performance of our customers and/or their ultimate retail customers, which is beyond our control. Our customers' business could underperform due to a number of factors, such as changes in their business strategies, failure to develop successful marketing strategies, changes in the market demand for their products and adverse market or economic conditions in the markets in which our customers operate. If our customers experience underperformance or are under financial difficulties, they could reduce their purchases from the Group, which could have a material and adverse impact on our business, results of operations, financial conditions and prospect.

Technological Risk

The LED lighting industry in which we operate is characterised by rapid changes and advancements in technology. With technology advancement, the LED beads and LED lighting products we offer to the market may become obsolete. If we are not able to respond to the rapid changing trends in the LED lighting market and introduce new products on a timely basis, our performance in the future would be adversely affected. In addition, new technological developments often bring price declines and decreasing profit margins for both LED beads and LED lighting products which risk driving our results downwards.

Intense Competition Risk

We face fierce competition in terms of technologies and product prices not only in the PRC but also in other countries or regions, such as Japan, Korea and Taiwan. Our ability to compete also depends on a number of factors which may be beyond our control, including the price of the comparable products offered by our competitors in the market and our responsiveness to changes of customers' needs.

Directors' Report (Continued)

Owing to the intense competition in the LED lighting industry in which we operate, we cannot assure you that the selling prices of certain products are free from downward pressure. In the event that our competitors lower their products' prices, we might follow their act in order to maintain our market share, competitiveness, or to lower our inventory level.

As new competitors enter into the industry, we may not be able to maintain or expand the sales of our LED beads or expand the sales of our LED lighting products or continue to compete effectively against current and future competitors. There is no assurance that our attempts to remain competitive in the market will succeed. If our attempts to remain competitive fail and our market share shrinks our overall performance may be adversely affected.

Environmental Policy

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance of prevailing environmental protection laws and regulations.

The Group has been accredited, since October 2011, with ISO 14001:2004 certification, an internationally recognised standard for an environmental management system, which aims at assisting organisations on identifying, managing, monitoring and controlling their environmental issues. Please refer to ESG Report for details.

Compliance with Relevant Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the GEM. Our establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2016 and up to the date of this report, the Company has complied with the relevant laws and regulations in the PRC and Hong Kong in all material respects.

Key Relationships

Employees

The Company recognises that employees are a valuable assets. Thus the Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Directors' Report (Continued)

Suppliers

The Group selects our suppliers based on a number of criteria including but not limited to their product quality, pricing, supply capability and business track record with the Group. The Directors take the view that due to their experience in the LED lighting industry, they strive to safeguard the safety and quality of our production materials. Hence, the Directors are capable of identifying suitable suppliers based on the aforesaid criteria. The Group regularly conducts on-site inspections of the suppliers' production facilities, reviews their background information and licences, including their business licence(s) and requisite certifications. As such, the Group has compiled and maintained a list of approved suppliers. These suppliers or any one of them would be removed from the list should they fail to satisfy our quality and service requirements upon periodic review by our production team and quality control team.

Customers

During the year, the Group sold the LED beads and LED lighting products directly to our customers predominantly in the Guangdong Province, which comprise manufacturers of small-sized and medium-sized backlight LED modules/panels, LCD panels and other electronics products and a trading company in the PRC.

The Group stays connected its customers and has ongoing communication with the customers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

Directors

The Directors during the year under review and up to the date of this report were as follows:

Executive Directors

Mr. Zhao Yi Wen (<i>Chairman and Chief Executive Officer</i>)	(appointed on 27 May 2015)
Mr. Lin Qi Jian	(appointed on 13 May 2016)
Mr. Chan Wing Kin	(appointed on 27 May 2015)

Non-executive Director

Mr. Chiu Kwai San	(appointed on 13 May 2016)
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Independent Non-executive Directors

Professor Chow Wai Shing, Tommy	(appointed on 2 December 2016)
Dr. Wu Wing Kuen, B.B.S.	(appointed on 2 December 2016)
Mr. Chan Chung Kik, Lewis	(appointed on 2 December 2016)

Pursuant to the Company's Articles of Association, all the Directors will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

Directors' Service Contracts

Each of the Executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and continuing thereafter until terminated by either party by giving not less than three months' notice in writing to the other.

Directors' Report (Continued)

The Non-executive Director and each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of two years commencing from 2 December 2016, provided that either the Company or the Non-executive Director and the Independent Non-executive Directors may terminate such appointment at any time by giving at least one month's notice in writing to the other.

Save as disclosed above, none of the Directors has or is proposed to enter into a service contract or letter of appointment with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Group within one year without the payment of compensation (other than statutory compensation)).

Directors' Interests in Contracts

Save for the related party transactions disclosed in note 31 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, or holding company was a party and in which a Director or an entity connected with a Director had a material interests, whether directly or indirectly, subsisted during or at the end of the Year.

Independent Non-executive Directors

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 under the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Management Contracts

No management contracts concerning the whole or any substantial part of the business of the Company were entered into or existed during the Year.

Directors' Rights to Acquire Shares or Debentures

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective associates, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Emolument Policy for Directors

The Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group. The remunerations of the Directors are determined with reference to market terms, seniority, experiences, duties and responsibilities assumed by each Director as well as their individual performance.

Directors' Report (Continued)

Non-competition Undertakings

Each of Mr. Zhao Yi Wen, Mr. Lin Qi Jian, Mr. Chiu Kwai San, First Global Limited, Star Eagle Enterprises Limited, Bigfair Enterprises Limited (each of them, a "Covenantor" and collectively, the "Covenantors") has entered into a Deed of Non-Competition on 2 December 2016 in favour of the Company (for itself and as trustee for and on behalf of its subsidiaries). In accordance with the Deed of Non-Competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (i) the date on which the Shares cease to be listed on GEM; or (ii) the date on which the Covenantors cease to be a Controlling Shareholder, he/it will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates (collectively, the "Controlled Persons") and any company directly or indirectly controlled by the Covenantor (the "Controlled Company") not, either on his/its own or in conjunction with or on behalf of any person, firm or any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, among other things, carry on, participate or be interested in, hold any right or interest (in each case whether as an investor, a shareholder, principal, partner, director, employee, consultant, agent, or otherwise and whether for profit, reward, interest or otherwise), engage in, acquire or otherwise be involved in any business which is or may be in competition, whether directly or indirectly, with the business carried on or contemplated to be carried on by the Company or any of our subsidiaries in Hong Kong, the PRC and such other places as the Company or any of our subsidiaries may conduct or carry on business from time to time in the future, including but not limited to the design, development, manufacturing and sales of LED beads, LED lighting products and/or related products (the "Restricted Business"). Details of the Non-competition Deed are set out in the paragraph headed "Non-Competition Undertaking" in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company dated 16 December 2016.

Competing Interests

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders of the Company nor any of their respective close associates (as defined under the GEM Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the period from the date of the Listing to 31 December 2016.

Directors' Report (Continued)

Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was conditionally approved by the Company pursuant to the written resolutions of the then all shareholders of the Company dated 2 December 2016. The terms of the Share Option Scheme are in accordance with Chapter 23 of the GEM Listing Rules. The following is a summary of the principal terms of the Share Option Scheme:

(1) Purpose of the Share Option Scheme

The Share Option Scheme enables the Company to grant options (the "Options") to any full-time or part-time employee of the Company or any member of the Group, including any executive, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of the Company or any of its subsidiaries (the "Eligible Persons") as incentives or rewards for their contributions to the Group.

(2) Who may join

The Board may, at its discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (3) below. Upon acceptance of the Option, the Eligible Person shall pay HK\$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of not less than 5 trading days from the date on which the Option is granted.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the Independent Non-executive directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(3) Price of shares of the Company (the "Share(s)")

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board and notified to a participant and shall be the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

(4) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK\$1.00.

Directors' Report (Continued)

(5) Maximum number of Shares

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group) must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date. The Company may refresh this limit at any time, subject to the shareholders' approval and the issue of a circular and in accordance with the GEM Listing Rules provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for such purpose, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Group) previously granted under the Share Option Scheme and any other share option schemes of the Group will not be counted. The above is subject to the condition that the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group shall not exceed 30% of the Share Capital of the Company in issue from time to time.

(6) Maximum entitlement of each Eligible Person

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. In such event, the Company must send a circular to the shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the GEM Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(7) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(8) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

Directors' Report (Continued)

Disclosure of Interests

Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of the group and its associated corporations

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity/Nature of interest	Number of issued ordinary shares	Percentage of the issued share capital of the Company
Mr. Zhao Yi Wen (Note 2, 5)	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%
Mr. Lin Qi Jian (Note 3, 5)	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%
Mr. Chiu Kwai San (Note 4, 5)	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%

Notes:

- The letter "L" denotes a long position.
- The aggregate 300,000,000 Shares in which Mr. Zhao Yi Wen is interested consist of (i) 100,500,000 Shares held by First Global Limited, accompany wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Zhao Yi Wen is deemed to be interested as a result of being a party acting-in-concert with Mr. Lin Qi Jian and Mr. Chiu Kwai San.
- The aggregate 300,000,000 Shares in which Mr. Lin Qi Jian is interested consist of (i) 100,500,000 Shares held by Star Eagle Enterprises Limited, accompany wholly owned by Mr. Lin Qi Jian, in which Mr. Lin Qi Jian is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Lin Qi Jian is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Chiu Kwai San.
- The aggregate 300,000,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, accompany wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; and (ii) 201,000,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.

Directors' Report (Continued)

5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

The interests of substantial shareholders and the interests and short position of other persons in the shares and underlying shares

As at 31 December 2016, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Name	Capacity/Nature of interest	Number of issued ordinary shares	Percentage of the issued share capital of the Company
First Global Limited (Note 2, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%
Star Eagle Enterprises Limited (Note 3, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%
Bigfair Enterprises Limited (Note 4, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%

Notes:

- The letter "L" denotes a long position.
- The aggregate 300,000,000 Shares in which Mr. Zhao Yi Wen is interested consist of (i) 100,500,000 Shares held by First Global Limited, accompany wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Zhao Yi Wen is deemed to be interested as a result of being a party acting-in-concert with Mr. Lin Qi Jian and Mr. Chiu Kwai San.

Directors' Report (Continued)

3. The aggregate 300,000,000 Shares in which Mr. Lin Qi Jian is interested consist of (i) 100,500,000 Shares held by Star Eagle Enterprises Limited, accompany wholly owned by Mr. Lin Qi Jian, in which Mr. Lin Qi Jian is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Lin Qi Jian is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Chiu Kwai San.
4. The aggregate 300,000,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, accompany wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; and (ii) 201,000,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.
5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

Save as disclosed above, as at 31 December 2016, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

Exempted Continuing Connected Transaction

During the year ended 31 December 2016, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards and the details of the material related party transactions (the "Transactions") are disclosed in note 31 to the consolidated financial statements of this annual report.

The Transactions falls under the definition of "connected transactions" or "continuing connected transactions" under Chapter 20 of the Listing Rules, but are fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 20 of the Listing Rules.

The Directors (including the Independent Non-executive Directors) confirmed that the continuing connected transaction under the PRC Lease Agreement as described above have been entered into in the ordinary and usual course of business of the Group and have been based on arm's length negotiations and on normal commercial terms that are fair and reasonable, the terms of the PRC Lease Agreement and its annual caps as mentioned above are fair and reasonable and in the interests of the Shareholders as a whole.

Directors' Report (Continued)

Interests of the Compliance Adviser and its Directors, Employees and Associates

As notified by the Company's Compliance Adviser, Lego Corporate Finance Limited (the "Compliance Adviser"), except for (i) Lego Corporate Finance Limited was the Company's sponsor in relation to the Listing; and (ii) the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 27 May 2016, which commencing on 30 December 2016, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2016 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Corporate Governance

Details of the corporate governance practice adopted by the Company are set out on pages 18 to 28 of this annual report.

Audit Committee

The audited financial statements of the Group for the year ended 31 December 2016 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2016 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Auditor

The consolidated financial statements for the year ended 31 December 2016 have been audited by BDO Limited, who will retire, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

By order of the Board

HongGuang Lighting Holdings Company Limited

Zhao Yi Wen

Chairman and Executive Director

Hong Kong, 27 March 2017

Independent Auditor's Report



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TO THE SHAREHOLDERS OF HONGGUANG LIGHTING HOLDINGS COMPANY LIMITED

(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of HongGuang Lighting Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 53 to 95, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (Continued)

Impairment assessment of trade and bills receivables

Refer to note 18 to the consolidated financial statements and the accounting policies on note 4(d)(ii).

As at 31 December 2016, the Group's gross trade and bills receivables balance amounted to approximately RMB92,108,000, of which approximately RMB2,734,000 were past due for more than 120 days. The collectability of the Group's trade and bills receivables and the valuation of the impairment of trade and bills receivables is a key audit matter due to the judgment involved.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the Directors' impairment assessment included:

- Enquiring with management of the Group whether there is any impairment indicator for debtors;
- Reviewing subsequent settlements of the trade and bills receivables; and
- Reviewing the repayment history and credit worthiness of the Group's debtors.

Inventory provision

Refer to note 17 to the consolidated financial statements and the accounting policies on note 4(e).

As at 31 December 2016, the inventories balance held by the Group amounted to approximately RMB11,126,000. The risk over the carrying values of inventories is considered a significant audit risk due to the changing specification of LED beads over time and the judgment therefore made in assessing the recoverability of their carrying values.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the Directors' provision assessment included:

- Corroborating on a sample basis that items on the inventory aging listing were classified in the appropriate aging analysis;
- Reviewing the inventories movement of the LED beads by product type and identifying any slow moving items;
- Reviewing the subsequent usages and sales of the inventory items; and
- Checking on a sample basis whether there were inventories that were sold with a negative margin after the year ended.

Independent Auditor's Report (Continued)

Other Information in the Annual Report

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the Directors in discharging their responsibilities in this regard.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our 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.

Independent Auditor's Report (Continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Chan Wing Fai

Practising Certificate Number: P05443

Hong Kong, 27 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	7	141,990	118,706
Cost of sales		(108,802)	(90,781)
Gross profit		33,188	27,925
Other income and gains	7	175	82
Selling and distribution expenses		(1,175)	(1,553)
Administrative and other expenses		(18,503)	(12,698)
Finance costs	9	(678)	(1,439)
Profit before income tax expense	8	13,007	12,317
Income tax expense	12	(7,121)	(4,581)
Profit for the year attributable to owners of the Company		5,886	7,736
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(2,370)	(1,382)
Total comprehensive income for the year attributable to owners of the Company		3,516	6,354
Earnings per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	13	1.96	2.58

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	14,357	16,237
Intangible assets	16	3,626	—
Deferred tax assets	24	548	596
		18,531	16,833
Current assets			
Inventories	17	11,126	21,046
Trade and bills receivables	18	89,219	58,365
Prepayments and other receivables	19	57,210	6,991
Cash and cash equivalents	20	577	7,670
		158,132	94,072
Current liabilities			
Trade payables	21	25,715	27,661
Other payables and accruals	22	19,158	20,555
Borrowings	23	14,700	8,000
Current tax liabilities		2,521	1,517
		62,094	57,733
Net current assets		96,038	36,339
Net assets		114,569	53,172
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	3,580	—
Reserves	26	110,989	53,172
Total equity		114,569	53,172

On behalf of the Directors

Zhao Yi Wen
 Director

Lin Qi Jian
 Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital	Share premium	Statutory reserve	Other reserve	Capital reserve	Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 25)	(note 26 (a))	(note 26(b))	(note 26(c))	(note 26(d))	(note 26(e))	(note 26(f))	
At 1 January 2015	—	—	2,128	11,007	12,867	22	16,255	42,279
Profit for the year	—	—	—	—	—	—	7,736	7,736
Exchange differences on translating foreign operations	—	—	—	—	—	(1,382)	—	(1,382)
Total comprehensive income for the year	—	—	—	—	—	(1,382)	7,736	6,354
Transfer to statutory reserve	—	—	1,320	—	—	—	(1,320)	—
Arising from the reorganisation	—	—	—	(10,427)	—	—	—	(10,427)
Shareholders contribution (Note (i))	—	—	—	—	14,966	—	—	14,966
At 31 December 2015 and 1 January 2016	—	—	3,448	580	27,833	(1,360)	22,671	53,172
Profit for the year	—	—	—	—	—	—	5,886	5,886
Exchange differences on translating foreign operations	—	—	—	—	—	(2,370)	—	(2,370)
Total comprehensive income for the year	—	—	—	—	—	(2,370)	5,886	3,516
Transfer to statutory reserve	—	—	1,897	—	—	—	(1,897)	—
Capitalisation issue (note 25(i))	2,685	(2,685)	—	—	—	—	—	—
Shares issued on placing, net of expenses (note 25(ii))	895	48,847	—	—	—	—	—	49,742
Shareholders contribution (Note(ii))	—	—	—	—	8,139	—	—	8,139
At 31 December 2016	3,580	46,162	5,345	580	35,972	(3,730)	26,660	114,569

Notes:

- (i) For the year ended 31 December 2015, the Group obtained shareholders' loans of RMB14,966,000, of which (i) RMB10,427,000 from the group of controlling shareholders (ie. Mr. Zhao Yi Wen, Mr. Lin Qi Jian and Mr. Chiu Kwai San) ("Controlling Shareholders"), which were used for the payment of consideration for the acquisition of 珠海宏光照明器材有限公司 ("Zhuhai HongGuang") and such amount had been effectively waived by the respective Controlling Shareholders in January 2015; and (ii) RMB4,539,000 from Mr. Chiu Kwai San which were mainly used for general working capital of the Group and such amount had been effectively waived by Mr. Chiu Kwai San before the year end and recognised as shareholder contribution in the capital reserve of the Group.
- (ii) For the year ended 31 December 2016, the Group obtained shareholder's loan of RMB8,139,000 from Mr. Chiu Kwai San. Such amount has been effectively waived by Mr. Chiu Kwai San before the year end and recognised as shareholder contribution in the capital reserve of the Group.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Profit before income tax		13,007	12,317
Adjustments for:			
Depreciation of property, plant and equipment	8	2,551	2,478
Amortisation of intangible assets	8	439	—
Interest income	7	(2)	(5)
Finance costs	9	678	1,439
Impairment loss on trade receivables	8	392	1,696
Operating profit before working capital changes		17,065	17,925
Decrease in inventories		9,920	947
(Increase)/decrease in trade and bills receivables		(31,246)	17,076
Increase in prepayments and other receivables (note (i))		(2,950)	(5,311)
Increase/(decrease) in trade payables and other payables		9,497	(2,746)
Cash generated from operations		2,286	27,891
Income tax paid		(6,069)	(8,957)
<i>Net cash (used in)/ generated from operating activities</i>		(3,783)	18,934
Cash flows from investing activities			
Purchases of property, plant and equipment		(671)	(179)
Purchase of intangible assets		(4,065)	—
Repayment from a shareholder		—	1,000
Interest received		2	5
Advance from shareholders in relation to group reorganisation		—	10,427
Payment in relation to group reorganisation		—	(10,427)
<i>Net cash flows (used in)/generated from investing activities</i>		(4,734)	826

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

Notes	2016 RMB'000	2015 RMB'000
Cash flows from financing activities		
Repayment to a then shareholder	—	(1,300)
Repayment to shareholders (Note (ii))	(4,612)	(8,376)
Interest paid	(678)	(1,439)
Repayment of bank borrowings	(8,000)	(17,000)
Proceeds from bank borrowings	14,700	8,000
<i>Net cash flows generated from/(used in) financing activities</i>	1,410	(20,115)
Net increase in cash and cash equivalents	(7,107)	(355)
Effect of exchange rate changes on cash and cash equivalents	14	39
Cash and cash equivalents as at the beginning of the year	7,670	7,986
Cash and cash equivalents as at the end of the year	577	7,670

Notes:

- (i) As at 31 December 2016, proceeds from shares issued in placing of RMB53,912,000 were still not yet received and recognised in other receivables (note 19(ii)).
- (ii) The amount included a shareholder's loans of RMB8,139,000 (2015: RMB4,539,000) from Mr. Chiu Kwai San, for the year ended 31 December 2016, which were mainly used for general working capital of the Group and such amount had been effectively waived by Mr. Chiu Kwai San before respective years end and recognised as shareholder contribution in the capital reserve of the Group.

Notes to the Financial Statements

For the year ended 31 December 2016

1. General and Corporate Information

HongGuang Lighting Holdings Company Limited (the “Company”) was incorporated with limited liability in the Cayman Islands on 27 May 2015. Its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 30 December 2016 with stock code “8343” the (“listing”).

The address of the Company’s registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company and its subsidiaries (collectively referred to as the “Group”) is located in the People’s Republic of China (the “PRC”) at the North Side, 2nd Floor, No.8 Pinggong Er Road, Nanping Technology Industrial Park, Zhuhai, the PRC.

The Company’s principal activity is investment holding. The Group is principally engaged in the design, development, manufacture and sales of LED beads and LED lighting products in the PRC (the “Listing Business”).

Pursuant to a group reorganisation, the Company became the holding company of the companies now comprising the Group on 5 October 2015 by way of share swaps with the existing ultimate Controlling Shareholders (i.e. Mr. Zhao Yi Wen, Mr. Lin Qi Jian and Mr. Chiu Kwai San) (the “Reorganisation”). Details of the Reorganisation are set out in the Company’s prospectus dated 16 December 2016.

Prior to the incorporation of the Company and the completion of the Reorganisation, the Listing Business was carried on by companies now comprising the Group (hereinafter collectively referred to as the “Operating Companies”).

Immediately prior to and after the Reorganisation, the Listing Business is held by the Operating Companies. Pursuant to the Reorganisation, the Operating Companies together with the Listing Business were transferred to and held by the Company. The share swaps had no substance and do not form a business combination and, accordingly, the financial statements of the Company were consolidated with those of the operating subsidiaries using the predecessor carrying amounts. The Reorganisation was therefore merely a reorganisation of the Listing Business and did not constitute a business combination, as if the group structure under the Reorganisation had been in existence since the respective dates of incorporation of the entities now comprising the Group.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”)

(a) Adoption of new/revised HKFRSs — effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
HKFRS 14	Regulatory Deferral Accounts

Amendments to HKAS 1 — Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity’s share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of these new or revised HKFRSs have no impact to the Group’s consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not previously used revenue-based depreciation methods.

Amendments to HKAS 27 — Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions ²
HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ²
HKFRS 16	Lease ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

Except as described below, the Directors do not anticipate that the application of the new and revised HKFRSs will have material impact on the Group’s financial performance and position and/or on the disclosures to the Group’s consolidated financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 (2014) — Financial Instruments

The HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Directors anticipate that the application of HKFRS 9 in the future will have an impact on amounts reported in respect of the Group’s financial performance and financial assets (e.g. impairment on trade receivables) resulting from early provision of credit losses using the expected loss impairment model under HKFRS 9 instead of incurred loss model under HKAS 39. Currently, the Directors are in the midst of assessing the financial impact of the application of HKFRS 9 and a reasonable estimate of the effect will be available once the detailed review is completed.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and related interpretations.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 15 — Revenue from Contracts with Customers (Continued)

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Directors anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported on revenue as the timing of revenue recognition may be affected by the new standard, and more disclosures relating to revenue is required. Currently, the Directors are in the midst of assessing the financial impact of the application of HKFRS 15 and a reasonable estimate of the effect will be available once the detailed review is completed.

HKFRS 16 — Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirement of HKAS 16 “Property, Plant and Equipment”, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

Total operating lease commitments of the Group in respect of office premises as at 31 December 2016 amounted to approximately RMB3,215,000. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

3. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (“RMB’000”) except when otherwise indicated.

4. Significant Accounting Policies

(a) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company’s statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of property, plant and equipment includes its purchase price and the cost directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Machinery and equipment	3–10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	2–5 years
Leasehold improvement	Over the shorter of lease term or useful life

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(c) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of sales. Amortisation is provided on a straight-line basis over their useful lives as follows:

Patent sublicense	Over the shorter of lease term or useful life
Computer Software	Over the shorter of lease term or useful life

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(c) Intangible assets (Continued)

(ii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 4(h)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in the income statement immediately.

(d) Financial instruments

(i) Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred.

The Group's financial liabilities at amortised cost including trade and other payables, borrowings and other monetary liabilities, are initially recognised at fair value, net of directly attributable transaction cost incurred, and are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gain or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expenses over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(e) Inventories

Inventories are initially recognised at cost, and subsequently valued at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

(f) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(h) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- Intangible assets; and
- investment in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

(i) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(i) Foreign currency (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the relevant period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of each reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to minority interests as appropriate).

Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

(j) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(l) Income tax expense

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they related to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer; and
- (b) interest income, on an accrual basis on the principal outstanding at the applicable interest rate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(n) Employee benefits

(i) Pension scheme

The subsidiaries established and operating in the PRC are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

(ii) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Company's parent.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(p) Related parties (Continued)

- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Inventory value is reduced when the decision to markdown below cost is made.

(ii) Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management judgement and estimation. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. If the financial condition of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

6. Segment Information

The chief operating decision makers are identified as Executive Directors of the Company. The Group has identified its operating segment based on the regular internal financial information reported to the Company's Executive Directors for their decisions about resources allocation and review of performance. The executive directors have considered the only operating segment of the Group is design, development, manufacture and sales of LED beads and LED lighting products.

No geographical information is presented as most of the Group's operations are located in the PRC.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

6. Segment Information (Continued)

The following customers with transactions have exceeded 10% of the Group's revenue. During the year ended 31 December 2016, revenue derived from these customers is as follows:

	2016 RMB'000	2015 RMB'000
Client A	30,544	28,100
Client B	44,088	40,353

7. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, less discounts, returns, value added tax and other applicable local taxes during the year.

An analysis of the Group's revenue, other income and gains are as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sales of LED beads	137,163	114,989
Sales of LED lighting products	4,827	3,717
	141,990	118,706
Other income and gains		
Bank interest income	2	5
Government grants (Note)	173	41
Others	—	36
	175	82

Note: The amount represents the government subsidy for the Group's technology advancement during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

8. Profit before Income Tax Expense

The Group's profit before income tax expense is arrived at after charging (crediting):

	2016 RMB'000	2015 RMB'000
Cost of inventories sold	108,802	90,781
Depreciation of property, plant and equipment	2,551	2,478
Amortisation of intangible assets, included in cost of sales	439	—
Impairment loss on trade receivables	392	1,696
Auditors' remuneration	582	97
Operating lease rental in respect of building	390	386
Research and development costs	1,032	852
Employee costs (including Directors' remuneration) (Note 10)		
— Wages, salaries and other benefits	5,251	6,138
— Contribution to defined contribution pension plans	1,000	1,122
Listing expenses	10,851	3,805
Exchange (loss)/gain, net	49	(49)

9. Finance Costs

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings repayable within five years	678	935
Interest on discounted bills receivable	—	504
	678	1,439

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

10. Directors' Remuneration

Directors' emoluments are disclosed as follows:

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to defined contribution pension plans RMB'000	Total RMB'000
Year ended 31 December 2016					
<i>Executive Directors:</i>					
Mr. Zhao Yi Wen	(a)	2	54	8	64
Mr. Lin Qi Jian	(b)	1	59	7	67
Mr. Chan Wing Kin	(a)	—	617	15	632
<i>Non-executive director:</i>					
Mr. Chiu Kwai San	(c)	1	—	—	1
<i>Independence Non-executive directors:</i>					
Professor Chow Wai Shing, Tommy	(d)	1	—	—	1
Dr. Wu Ming Kuen, B.B.S.	(d)	1	—	—	1
Mr. Chan Chung Kik, Lewis	(d)	1	—	—	1
Total		7	730	30	767
Year ended 31 December 2015					
<i>Executive Directors:</i>					
Mr. Zhao Yi Wen	(a)	—	53	6	59
Mr. Lin Qi Jian		—	41	3	44
Mr. Chan Wing Kin	(a)	—	508	13	521
<i>Non-executive Director:</i>					
Mr. Chiu Kwai San		—	—	—	—
Total		—	602	22	624

Notes:

- (a) Appointed as Directors on 27 May 2015, redesignated as Executive Directors on 13 May 2016.
- (b) Appointed as Executive Director on 13 May 2016.
- (c) Appointed as Non-executive Director on 13 May 2016.
- (d) Appointed as Independent Non-executive Directors on 2 December 2016.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

11. Five Highest Paid Individuals

The five highest paid individuals of the Group for the year included 2 (2015: 2) Directors whose emoluments are reflected in the disclosures in Note 10. The emoluments of the remaining 3 (2015: 3) highest paid individuals for the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	92	407
Performance related bonuses	57	37
Contribution to defined contribution pension plans	18	22
	167	466

Their remuneration fell within the following bands:

	2016 No. of individuals	2015 No. of individuals
Nil to HKD1,000,000	3	3

During the years ended 31 December 2016 and 2015, no Director or any of the highest-paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the Directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

12. Income Tax Expense

The Group is subject to income tax on an entity basis on profit 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 and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2016 and 2015.

Provision for the enterprise income tax (the "EIT") in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the relevant income tax law in the PRC.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

12. Income Tax Expense (Continued)

	2016 RMB'000	2015 RMB'000
Current income tax — PRC EIT		
— tax for the year	6,474	4,155
— underprovision in respect of prior years	599	—
Deferred tax (Note 24)	48	426
	7,121	4,581

A reconciliation of the income tax expense applicable to profit before income tax expense using the statutory enterprise income tax rate in the PRC to the tax expense at the effective tax rates is as follows:

	2016 RMB'000	2015 RMB'000
Profit before income tax expense	13,007	12,317
At the PRC's statutory enterprise income tax rate of 25%	3,252	3,079
Effect of different tax rates of subsidiaries operating in other jurisdiction	1,111	464
Effect of non-deductible expenses	2,159	1,038
Underprovision in respect of prior years	599	—
Income tax expense	7,121	4,581

13. Earnings Per Share

The basic earnings per share for the year is calculated based on the profit attributable to owners of the Company of RMB5,886,000 (2015: RMB7,736,000), and the weighted average number of ordinary shares of 300,546,000 issued during the year ended 31 December 2016 (2015: 300,000,000 deemed to have been issued throughout the year ended 31 December 2015).

The Company did not have any potential dilutive shares for the years ended 31 December 2016 and 2015. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

14 Dividend

No dividend has been paid or declared by the Company for the years ended 31 December 2016 and 2015.

15. Property, Plant and Equipment

	Machinery and equipment	Motor vehicles	Furniture, fixtures and office equipment	Leasehold improvement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At 1 January 2015	26,735	148	67	—	26,950
Additions	48	—	6	125	179
At 31 December 2015 and 1 January 2016	26,783	148	73	125	27,129
Additions	596	—	—	75	671
At 31 December 2016	27,379	148	73	200	27,800
Accumulated depreciation					
At 1 January 2015	8,346	16	52	—	8,414
Depreciation charge for the year	2,435	27	10	6	2,478
At 31 December 2015 and 1 January 2016	10,781	43	62	6	10,892
Depreciation charge for the year	2,504	27	2	18	2,551
At 31 December 2016	13,285	70	64	24	13,443
Net book value					
At 31 December 2016	14,094	78	9	176	14,357
At 31 December 2015	16,002	105	11	119	16,237

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

16. Intangible Assets

	Patent sublicense RMB'000	Computer Software RMB'000	Total RMB'000
Cost			
At 1 January 2016	—	—	—
Additions	3,600	465	4,065
At 31 December 2016	3,600	465	4,065
Accumulated amortisation			
At 1 January 2016	—	—	—
Amortisation charge for the year	424	15	439
At 31 December 2016	424	15	439
Net Book Value			
At 31 December 2016	3,176	450	3,626

17. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	3,327	4,596
Finished goods	7,799	16,450
	11,126	21,046

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

18. Trade and Bills Receivables

	2016 RMB'000	2015 RMB'000
Trade receivables	84,302	52,791
Bills receivable	4,917	5,574
	89,219	58,365

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days, extending up to 90 days for major customers. The Group seeks to maintain control over its outstanding receivables and overdue balances are reviewed regularly by senior management. There is a certain concentration of credit risk.

The aging analysis of the trade and bills receivables, based on the invoice dates, is as follows:

	2016 RMB'000	2015 RMB'000
0 to 30 days	22,865	20,539
31 to 60 days	23,927	15,299
61 to 90 days	14,425	7,475
91 to 120 days	8,619	3,730
121 to 365 days	19,398	11,234
Over 1 year	2,874	2,585
	92,108	60,862
Less: Impairment of trade receivables	(2,889)	(2,497)
	89,219	58,365

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

18. Trade and Bills Receivables (Continued)

The aging analysis of the trade and bills receivables which were past due but not impaired is as follows:

	2016	2015
	RMB'000	RMB'000
Past due for less than 30 days	7,091	4,422
Past due for more than 30 days but less than 60 days	13,219	1,247
Past due for more than 60 days but less than 90 days	6,348	413
Past due for more than 90 days but less than 120 days	2,772	—
Past due for more than 120 days	2,734	10,013
	32,164	16,095

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

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

18. Trade and Bills Receivables (Continued)

The below table reconciled the impairment loss of trade receivables:

	2016 RMB'000	2015 RMB'000
At beginning of the year	2,497	2,257
Impairment loss recognised	392	1,696
Bad debts written off	—	(1,456)
At end of the year	2,889	2,497

The Group recognised impairment loss based on the accounting policy stated in Note 4d(ii).

19. Prepayments and Other Receivables

	2016 RMB'000	2015 RMB'000
Other receivables (Note)	56,439	155
Prepayments	771	6,836
	57,210	6,991

Note: The amount includes receivable of proceeds from share placing (see note 25 (ii)). The balance has been fully received in January 2017.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

20. Cash and Cash Equivalents

	2016 RMB'000	2015 RMB'000
Cash and bank balances	577	6,370
Restricted bank balances	—	1,300
Cash and cash equivalents	577	7,670
Denominated in RMB	430	6,934
Denominated in HK\$	147	736
Cash and cash equivalents	577	7,670

The bank balances are deposited with creditworthy banks with no history of default. The carrying amounts of the cash and cash equivalents approximated their fair values at the end of the reporting period. Cash and cash equivalents denominated in RMB are not freely convertible and the remittance of such funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

The restricted bank balances is related to the litigation. Details please refer to Note 32.

21. Trade Payables

	2016 RMB'000	2015 RMB'000
Trade payables	25,715	27,661

The credit period granted from suppliers normally ranges from 30 to 120 days. The ageing analysis of trade payables, based on invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
0 to 30 days	12,989	5,751
31 to 60 days	4,782	2,667
61 to 90 days	1,303	3,696
91 to 120 days	218	4,603
121 to 365 days	681	7,307
Over 1 year	5,742	3,637
	25,715	27,661

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

22. Other Payables and Accruals

	2016 RMB'000	2015 RMB'000
Accrued payroll	421	644
Amounts due to shareholders (Note (i))	—	12,840
Deposits received	6	1,703
Other payables and accruals (Note (ii))	15,840	3,834
Other tax payables	2,891	1,534
	19,158	20,555

Notes:

- (i) The amount(s) due to (a) shareholder(s) were unsecured, interest free and repayable on demand.
- (ii) The amount included approximately RMB547,000 (2015: RMB551,000) rent and utility payables to 珠海經濟特區利佳電子發展有限公司, a related party of the Group which is beneficially owned by the shareholders of the Company, Mr. Lin Qi Jian and Mr. Zhao Yi Wen, who are also Directors of the Company.

23. Borrowings

	2016 RMB'000	2015 RMB'000
Secured interest-bearing bank borrowings: — Repayable on demand or within one year	14,700	8,000

The Group's bank borrowings are secured by leasehold land and building held by a related company, corporate guarantee from a related company, personal guarantees from the Company's shareholders, Mr. Zhao Yi Wen and Mr. Lin Qi Jian, who are also the Directors of the Company.

The effective interest rates on the Group's bank borrowings for the year were 5.05% (2015: 5.05%).

All of the banking facilities are subject to the fulfillment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the borrowings would become repayable on demand. The Group regularly monitors its compliance with these covenants. At the end of each of reporting period, none of the covenants related to drawn down facilities had been breached.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

24. Deferred Tax Assets

Details of the deferred tax recognised and movements are as follows:

	Deferred tax assets			Deferred tax liabilities —	Total
	Impairment of trade receivables	Write off of inventories	Sub-Total	Accelerated tax depreciation	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	564	462	1,026	(4)	1,022
Credited/(charged) to profit or loss (Note 12)	60	(458)	(398)	(28)	(426)
At 31 December 2015 and 1 January 2016	624	4	628	(32)	596
Charged to profit or loss (Note 12)	(12)	—	(12)	(36)	(48)
At 31 December 2016	612	4	616	(68)	548

Certain deferred tax assets and liabilities have been offset for the purpose of presentation. An analysis of the deferred tax balances is as follows:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	616	628
Deferred tax liabilities	68	(32)
	548	596

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors.

As at 31 December 2016 and 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiary established in the PRC. It is because in the opinion of the Directors, it is not probable that the subsidiary will distribute its earnings accrued from the date of operation to 31 December 2016 in the foreseeable future. Accordingly, no deferred tax liabilities have been recognised as at 31 December 2016 and 2015.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

25. Share Capital

The following changes in the Company's authorised and issued share capital took place during the period from 27 May 2015 (date of incorporation) to 31 December 2016.

	Number of ordinary shares	RMB'000
Authorised:		
Upon incorporation (10,000,000,000 shares of HK\$0.01 each), 31 December 2015, 1 January 2016 and 31 December 2016	10,000,000,000	89,500
Issued and fully paid:		
Upon incorporation (1,000 shares of HK\$0.01 issued and fully paid), 31 December 2015 and 1 January 2016	1,000	—
Capitalisation issue credited as fully paid on the share premium account of the Company (Note (i))	299,999,000	2,685
Share issued on placing (Note (ii))	100,000,000	895
At 31 December 2016	400,000,000	3,580

Notes:

- (i) Pursuant to the resolution passed on 2 December 2016, 299,999,000 shares were allotted and issued at par to the holders of shares on the register of members of the Company at the close of business on 2 December 2016 in proportion to their respective shareholdings by way of capitalisation. All the shares issued by way of capitalisation are rank pari passu in all respects with the existing issued shares.
- (ii) Pursuant to the share placing on 30 December 2016, 100,000,000 shares of HK\$0.01 each were issued at a price of HK\$0.63 per share. Accordingly, the Company's share capital was increased by RMB895,000 and the balance of the proceeds of RMB55,490,000 after deducting the listing expenses of RMB6,643,000 was credited to the share premium account.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

26. Reserves

Details of the movements on the Group's reserves for the years ended 31 December 2016 and 2015 is presented in the consolidated statement of changes in equity. Movements on the Company's reserves are as follows:

The Company

	Share premium	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(note (a))	(note (e))	(note (f))	
Upon date of incorporation on 27 May 2015	—	—	—	—
Loss for the period	—	—	(182)	(182)
Exchange differences on translating foreign operations	—	(10)	—	(10)
Total comprehensive income for the period	—	(10)	(182)	(192)
At 31 December 2015 and 1 January 2016	—	(10)	(182)	(192)
Loss for the year	—	—	(639)	(639)
Exchange differences on translating foreign operations	—	(43)	—	(43)
Total comprehensive income for the year	—	(53)	(821)	(874)
Capitalisation issue (note 25(i))	(2,685)	—	—	(2,685)
Shares issued in placing, net of expenses (note 25(ii))	48,847	—	—	48,847
At 31 December 2016	46,162	(53)	(821)	45,288

(a) Share Premium

Share premium represents amount subscribed for share capital in excess of par value.

(b) Statutory Reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the PRC subsidiary/(ies), it is required to appropriate 10% of the annual net profits of the PRC subsidiaries, after offsetting any prior years' losses as determined under the relevant PRC accounting standards, to their respective statutory reserves before distributing any net profit. When the balances of the statutory reserves reach 50% of their respective registered capital, any further appropriation is at the discretion of shareholders. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(c) Other reserve

Other reserve represents the difference between the fair value of the consideration paid and the carrying value of the subsidiaries acquired and was recorded in the equity.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

26. Reserves (Continued)

(d) **Capital Reserve**

Capital reserve represents the capital contribution from shareholders.

(e) **Exchange Reserve**

Exchange reserve represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

(f) **Retained Earnings/Accumulated Losses**

Retained earnings/accumulated losses represents cumulative net gains and losses recognised in profit or loss.

27. Operating Lease Commitment

The Group leased office premises under operating lease arrangement with third party landlords and a related party during the year. Leases for these properties are negotiated for terms ranging from three to ten years. The lease commitment only includes commitment for basic rental and the lease does not include any contingent rental.

Future minimum lease payments in respect of a rent premise are as follows:

	2016 RMB'000	2015 RMB'000
Not later than one year	390	390
Later than one year and not later than five years	1,559	1,559
Later than five years	1,266	1,656
	3,215	3,605

28. Capital Commitments

	2016 RMB'000	2015 RMB'000
Commitments for the acquisition of property, plant and equipment: — contracted for but not provided	847	260

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

29. Holding Company Statement of Financial Position

	Notes	2016 RMB'000	2015 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		7	7
		7	7
Current assets			
Other receivables		56,385	—
Cash and cash equivalents		8	—
		56,393	—
Current liabilities			
Amounts due to subsidiaries		6,982	192
Other payables		550	7
		7,532	199
Net assets/(net liabilities)		48,868	(192)
EQUITY			
Share capital	25	3,580	—
Reserves	26	45,288	(192)
Total equity/(deficit)		48,868	(192)

On behalf of the Directors

Zhao Yi Wen
Director

Lin Qi Jian
Director

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

30. Investment in Subsidiaries

Details of the subsidiaries as at 31 December 2016 are as follows:

Name	Form of business structure	Place of incorporation/ operation and principal activity	Description of shares held	Percentage of ownership interests/ voting rights/ profit share	
				Direct %	Indirect %
HongGuang Lighting Group Company Limited	Corporation	BVI Investment holding	1 ordinary share of United State Dollar ("US\$") 1 each	100	—
HongGuang Lighting (International) Limited (formerly known as Day Harvest International Limited)	Corporation	BVI Investment holding	1,000 ordinary shares of US\$1 each	100	—
HongGuang Lighting (Hong Kong) Holdings Limited (formerly known as HongGuang Lighting (Hong Kong) Limited)	Corporation	Hong Kong Investment holding	1,000 ordinary shares of HK\$1 each	—	100
Zhuhai HongGuang Lighting Fixture Company Limited	Corporation	The PRC Design, development, manufacture and sales of LED beads and LED lighting products	RMB 20,010,000	—	100

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

31. Related Party Transactions

(a) During the year, the Group entered into the following transactions with related parties:

Name of related party	Nature of transactions	Transaction amount	
		2016 RMB'000	2015 RMB'000
珠海經濟特區利佳電子發展有限公司	Utility expense	1,615	1,670
珠海經濟特區利佳電子發展有限公司	Rental expense	390	386
		2,005	2,056

Note: The related party is beneficially owned by the shareholders of the Company, Mr. Lin Qi Jian and Mr. Zhao Yi Wen, who are also Directors of the Company.

(b) Compensation of key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Directors as disclosed in Note 10, is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	733	602
Pension scheme contributions	30	22
	763	624

32. Litigation

On 17 January 2015, a supplier of Zhuhai HongGuang as plaintiff instituted legal proceedings in the People's Court of Hengqin New Area, Zhuhai in the PRC against Zhuhai HongGuang as defendant, for the repayment of an aggregate outstanding sum of approximately RMB1,300,000 for the payment of supplies supplied to Zhuhai HongGuang and the relevant interest.

By an order of the court dated 28 January 2015, the bank balances of Zhuhai HongGuang amounting to approximately RMB1,300,000 was restricted for use until the case is being settled.

On 1 April 2015, Zhuhai HongGuang filed a counterclaim against the plaintiff for damages in the sum of approximately RMB1,510,000, on the ground that there were material defects on the supplies provided by the plaintiff.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

32. Litigation (Continued)

On 10 July 2015, the court ruled in favour of the plaintiff and dismissed the counterclaim made by Zhuhai HongGuang. Zhuhai HongGuang disagreed with the judgement and filed a notice of appeal to the Zhuhai City Intermediate People's Court on 27 August 2015.

On 26 May 2016, the parties reached a settlement, pursuant to which Zhuhai Hongguang shall pay to the plaintiff a sum of approximately USD220,000 for the outstanding balance and interest and approximately RMB28,000 for other disbursements incurred by the plaintiff during the litigation. On the same day, the Zhuhai City Intermediate People's Court issued a verdict confirming the same.

Pursuant to a letter issued by the plaintiff to the Zhuhai City Intermediate People's Court dated 8 July 2016, Zhuhai HongGuang had paid the settlement amount in full.

33. Summary of Financial Assets and Financial Liabilities

The carrying amounts presented in the consolidated statements of financial position relate to the following categories of financial assets and financial liabilities.

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables	146,235	66,190
Financial liabilities		
Measured at amortised cost	59,573	56,216

The fair value of all these financial assets and financial liabilities are not materially different from their carrying amounts.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

34. Financial Risk Management

The Group's activities expose itself to variety of financial risks: interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of Directors regularly reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk in relation to variable-rate bank balances and bank borrowings. Interests charged on the Group's borrowings are at variable rates. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the short-term bank deposits. However, management considers the interest rate risk on the deposits is insignificant as they are relatively short-term. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

After performed the sensitivity analysis, management considered that the potential effect on the Group's post-tax profit at the end of each of the reporting period would be minimal, if interest rates had been 100 basis points higher/lower and all other variables were held constant. In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of each of the reporting period do not reflect the exposures during the year.

Foreign currency risk

Substantially all the transactions of the Group's subsidiaries in the PRC are carried out in RMB, which is the functional currency of the Group. Therefore, the risk on foreign currency risk is minimal.

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and advance to a shareholder, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of 31 December 2016, the Group has a certain concentration of credit risk as approximately 80% (2015: 60%) of the total trade receivables were due from the five largest customers.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016

34. Financial Risk Management (Continued)

Liquidity risk

The Group objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The maturity profile of the Group's financial liabilities as at each of the years ended 31 December 2016 and 2015, based on the contractual undiscounted payments, is less than one year. The discounting impact of the Group's financial liabilities is insignificant.

35. Capital Management

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing the products commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. Net debt includes trade payables, other payables and accruals and borrowings less cash and cash equivalents. The net debt-to-equity ratio as at the end of each of the financial year is as follows:

	2016 RMB'000	2015 RMB'000
Trade payables	25,715	27,661
Other payables and accruals	19,158	20,555
Borrowings	14,700	8,000
Less: Cash and cash equivalents	(577)	(7,670)
Net debt	58,996	48,546
Equity	114,569	53,172
Net debt-to-equity ratio	51%	91%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

36. Approval of Financial Statements

The financial statements were approved and authorised for issue by the board of Directors on 27 March 2017.

Financial Summary

Results

	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	141,990	118,706	110,038
Profit before income tax expense	13,007	12,317	7,859
Income tax expense	(7,121)	(4,581)	(2,456)
Profit for the year	5,886	7,736	5,403

Assets and Liabilities

	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	176,663	110,905	129,354
Total liabilities	62,094	57,733	87,075
Total equity	114,569	53,172	42,279

Note: The financial information for the years ended 31 December 2014 and 2015 were extracted from the prospectus of the Company dated 16 December 2016. The summary above does not form part of the audited financial statements.