



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

2017

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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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Hong Kong

CORPORATE INFORMATION (CONTINUED)

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Clifton House
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Grand Cayman
KY1-1108
Cayman Islands

Hong Kong Branch Registrar and Transfer Office

Boardroom Share Registrars (HK) Limited
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Hong Kong

Principal Banker

Industrial and Commercial Bank of China
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Compliance Adviser

Lego Corporate Finance Limited
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Legal Adviser

TC & Co Solicitors
Unit 2201-3
Tai Tung Building
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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 hereby present the annual report of the HongGuang Lighting Holdings Company Limited (the “**Company**”) together with its subsidiaries (the “**Group**”) for the year ended 31 December 2017 (the “**Year**” or “**2017**”).

2017 is the first whole reporting year since the listing of the Company's securities on the GEM of the Stock Exchange on 30 December 2016 (the “**Listing**”). During the Year, the Group's wholly-owned subsidiary, the Zhuhai HongGuang Lighting Fixture Company Limited* (“**Zhuhai HongGuang**”) (珠海宏光照明器材有限公司) obtained a “New and High Technology Enterprise Certificate” (高新技術企業證書) jointly issued by the Guangdong Provincial Department of Science and Technology* (廣東省科學技術廳), the Department of Finance of Guangdong Province* (廣東省財政廳), the Guangdong Provincial Office of the State Administration of Taxation* (廣東省國家稅務局) and the Guangdong Local Taxation Bureau* (廣東省地方稅務局). Upon being recognised as an enterprise of new and high technology, Zhuhai HongGuang is entitled to a preferential enterprise income tax rate of 15% for the three consecutive years commencing from 2016.

Moreover, Zhuhai HongGuang has successfully registered two new utility patents in the People's Republic of China (the “**PRC**”) during 2017. As at 31 December 2017, the Group is the registered proprietor of 17 patents in the PRC.

With our continual commitment to high standards of quality control, the Group upgraded the management system and has been accredited with the latest ISO 9001:2015 certification of quality management system and ISO 14001:2015 certification of environmental management system since October 2017.

The Company continued to focus on producing and marketing light-emitting diode (“**LED**”) beads that are used for production of backlight LED products in the small and medium segment. Profit for the Year increased by approximately RMB6.9 million or approximately 116.9% from approximately RMB5.9 million for the year ended 31 December 2016 (the “**Previous Year**” or “**2016**”) to approximately RMB12.8 million for the year ended 31 December 2017. However, we saw a gentle decline in revenue from RMB142.0 million for the Previous Year to RMB116.7 million for the year ended 31 December 2017, primarily due to a number of our downstream customers experienced sales downturn during the Year and reduced their purchases from the Group.

To maintain our position as a leading manufacturer of LED beads in the PRC, our sales team will continue to focus its efforts on developing new customer relationships and on finding opportunities for us to work with existing customers on new projects.

Lastly, on behalf of the Board, I wish to take this opportunity to express my sincere gratitude to the management and staff of the Group for their diligence and valuable contribution throughout the Year. I would also like to express my heartfelt appreciation to all our shareholders for their continued confidence in the HongGuang Lighting Holdings Company Limited.

On behalf of the Board,

Mr. Zhao Yi Wen

Chairman

Hong Kong, 22 March 2018

* For identification purpose only

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 sale of LED beads and LED lighting products upon delivery of our products to our customers with their acceptance of our products.

Business Review

The Group's revenue decreased from approximately RMB142.0 million for the year ended 31 December 2016 to approximately RMB116.7 million for the year ended 31 December 2017, primarily due to a number of our downstream customers experienced sales downturn and reduced their purchases from the Group. In addition, business operations at Zhuhai HongGuang was temporarily disrupted in late August 2017 as super typhoon Hato swept through southern China and made landfall over Zhuhai city, where Zhuhai HongGuang's production facility is located. The operation at Zhuhai HongGuang has fully resumed since September 2017.

Profit for the year ended 31 December 2017 amounted to approximately RMB12.8 million (approximately RMB5.9 million for the year ended 31 December 2016), which represents an increase of approximately RMB6.9 million or approximately 116.9% as compared to the Previous Year. Such increase is mainly due to (i) the recognition as other income and gains of government grants of approximately RMB1.9 million granted to Zhuhai HongGuang. Consequently, the amount of other income and gains for the Year increased from approximately RMB0.2 million in the Previous Year to approximately RMB2.3 million; (ii) Zhuhai HongGuang is entitled to a reduction in the rate of enterprise income tax from 25% to 15%; (iii) the recognition of income tax credit of approximately RMB2.6 million which results in a reduction of enterprise income tax payable; and (iv) the absence of listing expenses in 2017 (approximately RMB10.9 million of listing expenses were recognised as administrative and other expenses in 2016).

During the Year, Zhuhai HongGuang obtained a "New and High Technology Enterprise Certificate" (高新技術企業證書) jointly issued by the Guangdong Provincial Department of Science and Technology* (廣東省科學技術廳), the Department of Finance of Guangdong Province* (廣東省財政廳), the Guangdong Provincial Office of the State Administration of Taxation* (廣東省國家稅務局) and the Guangdong Local Taxation Bureau* (廣東省地方稅務局). Upon being recognised as an enterprise of new and high technology, Zhuhai HongGuang is entitled to a preferential enterprise income tax rate of 15% for the three consecutive years commencing from 2016.

Moreover, Zhuhai HongGuang has successfully registered two new utility patents in the PRC during 2017. As at 31 December 2017, the Group is the registered proprietor of 17 patents in the PRC.

The Hong Kong-Zhuhai-Macao Bridge, which targets to open in the near future, will accelerate the economic integration of the Pearl River Delta and its neighbouring provinces, and enhance the attractiveness of the Western Pearl River Delta to external investment, which is conducive to the upgrading of its industry structure. As the Group's business activities are principally based in Zhuhai, the Group is likely to benefit from this transformation and the myriad business opportunities ahead.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The remarkable development in the PRC's LED industry over the past few years has intensified the competition among market players, leading to a gradual reduction in selling prices of LED products. However, as PRC continues to promote energy-saving business and domestic manufacturing, and the demand for small-sized backlight LED products which are essential for the production of electronic products such as smartphones is expected to remain strong, the Group stays cautiously optimistic about the industry's operating environment.

Financial Highlights

Year ended 31 December (RMB'000)	2017	2016*	Percentage Change
Revenue	116,737	141,990	-17.8%
Cost of sales	(91,626)	(108,802)	-15.8%
Gross profit	25,111	33,188	-24.3%
Profit before income tax expense	13,494	13,007	3.7%
Net profit	12,833	5,886	118.0%
Earnings per share (RMB)	0.0321	0.0196	63.8%
Total assets	144,891	176,663	-18.0%
Total equity	125,625	114,569	9.7%
Key Financial Ratios			
Gross profit margin (%)	21.5	23.4	
Net profit margin (%)	11.0	4.1	
Return on equity (%)	10.2	5.1	
Return on assets (%)	8.9	3.3	
Current ratio	6.4	2.5	
Gearing ratio (%)	N/A	12.8	

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Review

Revenue

For the year ended 31 December 2017, total revenue was approximately RMB116.7 million, representing a decrease of approximately 17.8% as compared with the Previous Year (2016: approximately RMB142.0 million). The decline was attributable to the decrease in revenue from the sales of both LED beads and LED lighting products.

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

	2017		2016	
	RMB'000	%	RMB'000	%
LED beads	115,945	99.3	137,163	96.6
LED lighting products	792	0.7	4,827	3.4
Total	116,737	100.0	141,990	100.0

For the year ended 31 December 2017, revenue from LED beads amounted to approximately RMB115.9 million (2016: approximately RMB137.2 million), accounting for 99.3% of the total revenue (2016: 96.6%). The decline in revenue was mainly due to a decrease in sales volume during the Year and also a decrease in the average selling price of approximately 2.2%.

Revenue from LED lighting products during the Year amounted to approximately RMB0.8 million (2016: approximately RMB4.8 million), representing 0.7% of the total revenue (2016: 3.4%).

Cost of Sales

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It decreased by approximately 15.8% from approximately RMB108.8 million for the year ended 31 December 2016 to approximately RMB91.6 million for the year ended 31 December 2017, reflecting a decrease in the sales volume of the LED beads and LED lighting products, which mainly led to the decrease in the cost of material used.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit and Gross Profit Margin

The gross profit decreased from approximately RMB33.2 million for the year ended 31 December 2016 to approximately RMB25.1 million for the year ended 31 December 2017. The gross profit margin decreased from 23.4% for the year ended 31 December 2016 to 21.5% for the year ended 31 December 2017. The following table sets forth a breakdown of the gross profit and the gross profit margin by segment for the periods indicated:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
LED beads	24,684	21.3	30,173	22.0
LED lighting products	427	53.9	3,015	62.4
Total gross profit/gross profit margin	25,111	21.5	33,188	23.4

The gross profit margin of LED beads slightly decreased from 22.0% for the year ended 31 December 2016 to 21.3% for the year ended 31 December 2017. Such decrease was mainly attributable to the decrease in the average selling price of LED beads of approximately 2.2% during the Year.

The gross profit margin of LED lighting products experienced a decline from 62.4% for the year ended 31 December 2016 to 53.9% for the year ended 31 December 2017. Such decrease was mainly due to the higher proportion of sales of LED lighting products with lower profit margin during the Year, as compared to the Previous Year.

Other Income and Gains

Other income and gains of the Group increased by 1,150% from approximately RMB0.2 million for the year ended 31 December 2016 to approximately RMB2.3 million for the year ended 31 December 2017, which was mainly attributable to the receipt of non-recurring government grants of approximately RMB1.9 million, by the Group's wholly-owned subsidiary, Zhuhai HongGuang, which was being recognised as a "New and High Technology Enterprise" (高新技術企業).

Selling and Distribution Expenses

The selling and distribution expenses increased by 8.3% from approximately RMB1.2 million for the year ended 31 December 2016 to approximately RMB1.3 million for the year ended 31 December 2017. The increase in selling and distribution expenses was mainly attributable to the increase in staff costs, traveling expenses and entertainment expenses.

Administrative and Other Expenses

The Group's administrative and other expenses decreased by 32.4% from approximately RMB18.5 million for the year ended 31 December 2016 to approximately RMB12.5 million for the year ended 31 December 2017. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The decrease in administrative and other expenses was mainly due to the absence of listing expenses for the year ended 31 December 2017. The Group recorded listing expenses of approximately RMB10.9 million for year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance Costs

The Group's finance costs decreased by 85.7% from approximately RMB0.7 million for the year ended 31 December 2016 to approximately RMB0.1 million for the year ended 31 December 2017. Such decrease was mainly due to the full repayment of the Group's bank borrowings in 2017.

Listing Expenses

For the two years ended 31 December 2016 and 31 December 2017, the Group recorded listing expenses of approximately RMB10.9 million and nil, respectively.

Income Tax Expense

Income tax expense of the Group for the Year was approximately RMB0.7 million (2016: approximately RMB7.1 million). The decrease in income tax expense was primarily attributable to (i) the Group's wholly-owned subsidiary, Zhuhai HongGuang's entitlement to a tax preference with a reduction of enterprise income tax rate from 25% to 15% upon being recognised as an enterprise of new and high technology during 2017; and (ii) a non-recurring income tax credit of approximately RMB2.6 million recognised during 2017, in relation the enterprise income tax reduction amount for the year 2016.

Profit for the Year

The profit for the year increased by approximately RMB6.9 million or approximately 116.9% from approximately RMB5.9 million for the year ended 31 December 2016 to approximately RMB12.8 million for the year ended 31 December 2017. Despite a decrease in revenue and gross profit for 2017 compared to 2016, the increase in profit for the year was mainly attributable to (i) the recognition as other income and gains of non-recurrent government grants of approximately RMB1.9 million granted to Zhuhai HongGuang. Consequently, the amount of other income and gains for the year increased from approximately RMB0.2 million in the Previous Year to approximately RMB2.3 million; (ii) Zhuhai HongGuang is entitled to a reduction in the rate of enterprise income tax from 25% to 15%; (iii) the recognition of a non-recurring income tax credit of approximately RMB2.6 million which results in a reduction of enterprise income tax payable; and (iv) the absence of listing expenses in 2017 (approximately RMB10.9 million of listing expenses were recognised in administrative and other expenses in 2016).

Net Profit Margin

The net profit margin was 11.0% for the year ended 31 December 2017, compared to that of 4.1% for the year ended 31 December 2016. The increase was mainly due to the increase in other income and gains, decrease in income tax expense and decrease in administrative and other expenses.

Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil), in order to cope with the future business development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Comparison between Business Objectives with Actual Business Progress

The following is a comparison of the Group's business strategies as set out in the Company's prospectus dated 16 December 2016 (the "Prospectus") with actual business progress up to 31 December 2017:

Business strategies up to 31 December 2017 as set out in the Prospectus

Actual business progress up to 31 December 2017

— Expanding the production capacity	The Group has purchased 22 additional machineries for LED bead encapsulation.
— Developing the Group's sales channels	The Group has added three sales and marketing staff and is in the process of exploring the PRC and overseas markets.
— Reduction of the gearing ratio	The Group has fully repaid all bank loans in 2017 and successfully reduced the gearing ratio.

One of the key risks and uncertainties facing the Group is our reliance on downstream LED lighting industry. During the Year, a number of our downstream customers experienced sales downturn and reduced their purchases from our Group. In response to this, the Group will continuously strive to broaden the client base.

In light of the sales decline in both the LED beads and the LED lighting products during the Year, the Group has utilized the net proceeds from the Listing at a slower rate compared to the original plan.

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 Prospectus. As at 31 December 2017, 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	6.8	14.9
Developing the Group's sales channels	0.8	0.1	0.7
Repayment of bank loans	11.4	11.4	—
General working capital of Group	3.5	3.5	—
	37.4	21.8	15.6

All the unutilised proceeds have been placed in licensed banks in the PRC and Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 2017, the Group recorded net cash used in the operating activities of approximately RMB18.9 million as compared to the net cash used in the operating activities of approximately RMB3.8 million for the year ended 31 December 2016, primarily due to the decrease in trade payables and other payables during the year ended 31 December 2017 as compared to the increase in trade payables and other payables in the corresponding period in 2016.

As at 31 December 2017, the Group had net current assets of approximately RMB104.1 million (2016: approximately RMB96.0 million). The Group's current ratio as at 31 December 2017 was approximately 6.4 (2016: approximately 2.5).

As at 31 December 2017, the Group had total cash and bank balances of approximately RMB15.8 million (2016: approximately RMB0.6 million). The increase in total cash and bank balances was mainly due to the proceeds received from shares issued upon the Company's Listing.

As at 31 December 2017, the total available banking facilities of the Group were nil (2016: RMB14.7 million). The total borrowing drawn down from banking facilities as at 31 December 2017 was nil (2016: RMB14.7 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 2017, the equity attributable to owners of the Company amounted to approximately RMB125.6 million (2016: approximately RMB114.6 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%) increased by approximately 5.1% for the year ended 31 December 2016 to approximately 10.2% for the year ended 31 December 2017. Such increase was mainly attributable to the increase in net profit as a result of the (i) increase in other income and gains; (ii) decrease in income tax expense; and (iii) decrease in administrative and other expenses for the year ended 31 December 2017.

Return on Assets

Return on assets (i.e. net profit for the year divided by total assets of the year and multiplied by 100%) increased from approximately 3.3% for the year ended 31 December 2016 to approximately 8.9% for the year ended 31 December 2017. Such increase was mainly attributable to (i) the increase in net profit as a result of the (a) increase in other income and gains; (b) decrease in income tax expense; and (c) decrease in administrative and other expenses for the year ended 31 December 2017; and (ii) the decrease in other receivables for the year ended 31 December 2017.

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) increased from approximately 2.5 as at 31 December 2016 to approximately 6.4 as at 31 December 2017, primarily due to the decrease in (i) borrowings; and (ii) trade and other payables for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gearing Ratio

As at 31 December 2017, 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 nil compared to that of 12.8% as at 31 December 2016. The decrease was mainly due to the full repayment of bank borrowings in 2017.

Significant Investments

As at 31 December 2017, there was no significant investment held by the Group (2016: Nil).

Material Acquisitions and Disposals

The Group did not carry out any material acquisition nor disposal of any subsidiary during the year ended 31 December 2017.

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 2017. As at 31 December 2017, the Group's operating lease commitments amounted to approximately RMB2.8 million (2016: approximately RMB3.2 million).

Capital Commitments

As at 31 December 2017, the Group did not have any capital commitments for the acquisition of property, plant and equipment (2016: approximately RMB0.8 million).

Charges on the Group's assets

As at 31 December 2017, the Group did not have any charges on assets (2016: Nil).

Contingent Liabilities

As at 31 December 2017, 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 2017, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 31 December 2017, the Group employed 113 employees (2016: 111 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB7.6 million for the year ended 31 December 2017 (2016: approximately RMB6.3 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 48, 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 the HongGuang Lighting Group Company Limited (“**HongGuang Lighting**”) and the HongGuang Lighting (International) Limited (“**HongGuang International**”) and the chairman and legal representative of the 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 the 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 the 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 39, 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 16 years of experience in production of electronics components. From 1999 to 2016, Mr. Lin was the chairman of the 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 the 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 37, 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 the 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 in economics and finance with first class honours from The University of Hong Kong in December 2003 and a master’s degree in 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 13 years of experience in the electronics industrial sector and in the accounting and internal controls sector. Prior to joining the Group, Mr. Chan was a purchasing supervisor in the Jetcrown Industrial (Dongguan) Limited from September 2004 to April 2008 and was responsible for monitoring the daily purchasing operations and 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 Director

Mr. CHIU Kwai San (趙桂生), aged 55, 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 16 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 58, 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 honours from the 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 the 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 Hong Kong Government.

Dr. WU Wing Kuen, B.B.S. (胡永權), aged 61, 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 24 years of experience in real estate investment. He has been the director of the Jet View Investment Limited since December 1991 and the director of the 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 an independent non-executive director of the Nanfang Communication Holdings Limited, a company listed on the Main Board (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 45, 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 20 years of experience in auditing, accounting and corporate finance. Currently, Mr. Chan is 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).

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 (Stock Code: 1559) on 15 August 2016; (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) since May 2014; (iii) Founder Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 418) since March 2017; (iv) Peking University Resources (Holdings) Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 618) since March 2017; and (v) Wing Chi Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6080) since September 2017.

Senior Management

Ms. Qi Xiang Ling (慕香玲), aged 47, 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 the 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 the 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 the Zhuhai City Jiajule Zhuangshi Cailiao Company Limited* (珠海市家居樂裝飾材料有限公司).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. XU Jian Hui (許建輝), aged 61, 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 the 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 the 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 the 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 the 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 for the year ended 31 December 2017.

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 for the year ended 31 December 2017.

Board of Directors

Board Composition

As at 31 December 2017, 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 in general management and day-to-day operation of the Group. However, they will provide advice on strategic direction for the Group in 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.

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>)	4/4	N/A	N/A	N/A	1/1	N/A
Mr. Lin Qi Jian	4/4	N/A	N/A	N/A	1/1	N/A
Mr. Chan Wing Kin	4/4	N/A	N/A	N/A	1/1	N/A
Non-executive Director						
Mr. Chiu Kwai San	4/4	N/A	N/A	N/A	1/1	N/A
Independent Non-executive Director						
Professor Chow Wai Shing, Tommy	3/4	3/4	1/1	1/1	0/1	N/A
Dr. Wu Wing Kuen, <i>B.B.S</i>	4/4	4/4	1/1	1/1	1/1	N/A
Mr. Chan Chung Kik, Lewis	4/4	4/4	1/1	1/1	1/1	N/A

Pursuant to code provision A.6.7 of the CG Code, the Independent Non-executive Directors and the Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. At the annual general meeting of the Company held on 12 May 2017, Professor Chow Wai Shing, Tommy, an Independent Non-executive Director, was unable to attend that meeting due to attendance at seminar overseas.

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. During the year of 2017, one meeting between the chairman of 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 Audit Committee had four meetings during the year ended 31 December 2017. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 21 for the individual attendance records of each member of the 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 Remuneration Committee had one meeting during the year ended 31 December 2017. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 21 for the individual attendance records of each member of the 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 Nomination Committee had one meeting during the year ended 31 December 2017. Please refer to the paragraph entitled “Meetings Held and Attendance” on page 21 for the individual attendance records of each member of the Nomination Committee.

The Board adopted the view of Board diversity approach to achieve diversity on the Board. The Company recognizes 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 page 49 to 95 of this annual report.

For the year ended 31 December 2017, 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 2017 RMB'000
Audit services	749

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 Management. 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 GEM 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 the Securities & Futures Ordinance (“SFO”) and the GEM 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 2017, 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 annual general meeting ("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 Office C, 27/F., Billion Plaza 2, 10 Cheung Yue Street, Kowloon, 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 Office C, 27/F., Billion Plaza 2, 10 Cheung Yue Street, Kowloon, 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 transfer office 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 2017, there had been no 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 2017 (“**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 following 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, the Zhuhai HongGuang Production Plant has been accredited, since October 2017, with ISO 14001:2015 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) benzene (ii) methylbenzene (iii) dimethylbenzene and (iv) volatile organic compounds (“VOCs”) are generated.

During the Reporting Period, the amounts of air pollutants emitted from our production facility in the PRC were:

Type of Air Pollutant	Unit	Amount
Benzene	Tonne	0.02
Methylbenzene & Dimethylbenzene	Tonne	0.07
VOCs	Tonne	1.44

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 an 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.

During the Reporting Period, the amount of hazardous waste generated from our production facility in the PRC was:

Type of Hazardous Waste	Unit	Amount
Waste organic solvent	Tonne	0.8

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

We established waste management guidelines in controlling the disposal and generation of waste. For example, secure storage for hazardous waste has been established. Furthermore, a licensed chemical waste collector has been engaged to handle our hazardous waste, resulting in minimal contamination and adverse impact to the 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.

During the Reporting Period, the amount of greenhouse gas generated from our production facility in the PRC was:

Type of Greenhouse Gas	Unit	Amount
Carbon dioxide	Tonne	832

To reduce the greenhouse gas emission, we implemented energy saving measures to minimize the consumption of energy resources. Please refer to the “Use of Resources” section below for detailed measures implemented.

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 in 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.

During the Reporting Period, the amount of electricity consumed by our production facility in the PRC was:

Type of Energy	Unit	Amount
Electricity	Kilowatt hour (“kWh”) ('000s)	1,417

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

During the Reporting Period, the amounts of packaging material used for finished product by our production facility in the PRC were:

Type of Packaging Material	Unit	Amount
Cartoon box	Tonne	3.82
Antistatic bag	Tonne	1.59

In order to achieve the goal of effective energy conservation, 《資源能源節約管理程序》 has been 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 adverse environmental impacts arising from the production activities. To demonstrate our responsibility towards environmental conservation, we continuously monitor our impacts in accordance to our ISO 14001:2015 requirements. Significant risks are assessed and reviewed based on our established 《環境因素識別評價控制程序》. 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, the Labour Contract Law of the PRC, the PRC Social Insurance Law and the 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 suffering, thereby increasing overall productivity. Working hours and leaves are determined with consideration of both operation needs and statutory requirements to ensure that the 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, internal transfer, 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 in 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 the Production Safety Law of the PRC and the 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 trainings 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 acceptable under our human resources practices. We ensure that our employment practices are in compliance with the Labour Law of the PRC and the Labour Contract Law of the PRC. For example, our recruiters check identity cards of job applicants to ensure that under-aged applicant would not be selected.

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 suppliers' environmental and social performances, we strive to incorporate green practices in our procurement activities.

Suppliers' environmental and social performances, 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 Company's growth and profitability. We are committed to providing products and services that meets customer requirements and complies with regulations such as the Product Quality Law of the PRC and the 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 9001:2015 quality management system and ISO 14001:2015 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 the 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 the 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 seek for opportunities 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 2017.

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 2017 are set out in the consolidated statements of profit or loss and other comprehensive income on page 54.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017.

Financial Summary

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

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 56 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 year ended 31 December 2017, 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 2017, the Company's reserves available for distribution to the shareholders of the Company amounted to approximately RMB36.4 million.

Major Customers and Suppliers

For the year ended 31 December 2017, the largest customer accounted for approximately 37.6% (2016: 31.1%) of the total revenue. For the year ended 31 December 2017, the percentage of revenue derived from the five largest customers in aggregate was approximately 80.6% (2016: 79.3%).

For the year ended 31 December 2017, the largest supplier accounted for approximately 62.9% (2016: 53.9%) of the total purchases. For the year ended 31 December 2017, the five largest suppliers in aggregate accounted for approximately 89.3% (2016: 85.9%) 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 2017.

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 the 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 our 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 2017, with ISO 14001:2015 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. Accordingly, our establishment and operations shall comply with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2017 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 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 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 with 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 (*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

Pursuant to the Company's Articles of Association, Professor Chow Wai Shing, Tommy, Dr. Wu Wing Kuen, *B.B.S.* and Mr. Chan Chung Kik, Lewis will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' REPORT (CONTINUED)

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.

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

Save as otherwise disclosed in this Annual Report, 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.

DIRECTORS' REPORT (CONTINUED)

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.

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 the 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 year ended 31 December 2017.

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 2017, 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:

1. The letter "L" denotes a long position.
2. 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, a company 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.
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, a company 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, a company 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.

DIRECTORS' REPORT (CONTINUED)

Save as disclosed above, as at 31 December 2017, 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 2017, 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%
Ms. Zhuang Chan Ling	Interest of spouse	300,000,000 (L)	75.00%
Ms. Xie Wan	Interest of spouse	300,000,000 (L)	75.00%
Ms. Wong Ching Ming	Interest of spouse	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, a company 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, a company 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, a company 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.
6. Ms. Zhuang Chan Ling is the spouse of Mr. Zhao Yi Wen and is deemed, or taken to be, interested in the Shares in which Mr. Zhao Yi Wen has interest under the SFO.
7. Ms. Xie Wan is the spouse of Mr. Lin Qi Jian and is deemed, or taken to be, interested in the Shares in which Mr. Lin Qi Jian has interest under the SFO.
8. Ms. Wong Ching Ming is the spouse of Mr. Chiu Kwai San and is deemed, or taken to be, interested in the Shares in which Mr. Chiu Kwai San has interest under the SFO.

Save as disclosed above, as at 31 December 2017, 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 2017, the Group entered into certain transactions with "related parties" as defined under the application 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 lease agreement, as set out in the section headed "Connected Transaction" in the Prospectus, 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 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"), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2017 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 2017 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 2017 comply with applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

Auditor

The consolidated financial statements for the year ended 31 December 2017 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, 22 March 2018

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 54 to 95 which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 (“HKSA”) 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 for 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 2017, the Group's gross trade and bills receivables balance amounted to approximately RMB90,330,000, of which approximately RMB12,660,000 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 the 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 2017, the inventories balance held by the Group amounted to approximately RMB16,058,000. The risk over the carrying values of inventories is considered a significant audit risk due to the changing specification of light-emitting diode ("LED") beads over time and the judgement 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 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 responsibility 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, 22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	7	116,737	141,990
Cost of sales		(91,626)	(108,802)
Gross profit		25,111	33,188
Other income and gains	7	2,288	175
Selling and distribution expenses		(1,301)	(1,175)
Administrative and other expenses		(12,461)	(18,503)
Finance costs	9	(143)	(678)
Profit before income tax expense	8	13,494	13,007
Income tax expense	12	(661)	(7,121)
Profit for the year attributable to owners of the Company		12,833	5,886
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(1,777)	(2,370)
Total comprehensive income for the year attributable to owners of the Company		11,056	3,516
Earnings per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	13	3.21	1.96

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	17,739	14,357
Intangible assets	16	2,944	3,626
Deferred tax assets	24	797	548
		21,480	18,531
Current assets			
Inventories	17	16,058	11,126
Trade and bills receivables	18	87,111	89,219
Prepayments and other receivables	19	4,427	57,210
Cash and cash equivalents	20	15,815	577
		123,411	158,132
Current liabilities			
Trade payables	21	10,956	25,715
Other payables and accruals	22	7,664	19,158
Borrowings	23	—	14,700
Current tax liabilities		646	2,521
		19,266	62,094
Net current assets		104,145	96,038
Net assets		125,625	114,569
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	3,580	3,580
Reserves	26	122,045	110,989
Total equity		125,625	114,569

On behalf of the Directors of the Company

Zhao Yi Wen
Director

Lin Qi Jian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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 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 (i))	—	—	—	—	8,139	—	—	8,139
At 31 December 2016 and 1 January 2017	3,580	46,162	5,345	580	35,972	(3,730)	26,660	114,569
Profit for the year	—	—	—	—	—	—	12,833	12,833
Exchange differences on translating foreign operations	—	—	—	—	—	(1,777)	—	(1,777)
Total comprehensive income for the year	—	—	—	—	—	(1,777)	12,833	11,056
Transfer to statutory reserve	—	—	2,074	—	—	—	(2,074)	—
At 31 December 2017	3,580	46,162	7,419	580	35,972	(5,507)	37,419	125,625

Note:

- (i) For the year ended 31 December 2016, the Group held shareholder's loan of RMB8,139,000 from Mr. Chiu Kwai San, which are obtained before 1 January 2016. 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 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Profit before income tax		13,494	13,007
Adjustments for:			
Depreciation of property, plant and equipment	8	2,864	2,551
Amortisation of intangible assets	8	682	439
Gain on disposal of property, plant and equipment	7	(54)	—
Interest income	7	(11)	(2)
Finance costs	9	143	678
Impairment loss on trade receivables	8	330	392
Operating profit before working capital changes		17,448	17,065
(Increase)/decrease in inventories		(4,932)	9,920
Decrease/(increase) in trade and bills receivables		1,778	(31,246)
Increase in prepayments and other receivables		(3,602)	(2,950)
(Decrease)/increase in trade payables and other payables		(26,785)	9,497
Cash (used in)/generated from operations		(16,093)	2,286
Income tax paid		(2,785)	(6,069)
<i>Net cash used in operating activities</i>		(18,878)	(3,783)
Cash flows from investing activities			
Purchases of property, plant and equipment		(6,492)	(671)
Purchase of intangible assets		—	(4,065)
Interest received		11	2
<i>Net cash flows used in investing activities</i>		(6,481)	(4,734)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017

Notes	2017 RMB'000	2016 RMB'000
Cash flows from financing activities		
Advance from a Director	832	—
Repayment to shareholders	—	(4,612)
Proceed from issue of ordinary shares	56,385	—
Interest paid	(143)	(678)
Repayment of bank borrowings	(14,700)	(8,000)
Proceeds from bank borrowings	—	14,700
<i>Net cash flows generated from financing activities</i>	42,374	1,410
Net increase/(decrease) in cash and cash equivalents	17,015	(7,107)
Effect of exchange rate changes on cash and cash equivalents	(1,777)	14
Cash and cash equivalents as at the beginning of the year	577	7,670
Cash and cash equivalents as at the end of the year	15,815	577

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 30 December 2016 with stock code “8343”.

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 light-emitting diode (“LED”) beads and LED lighting products in the PRC.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Entities are not required to give comparative information in the first period in compliance with the disclosure requirement in HKAS 7 paragraphs 44A to 44E. The Group’s bank borrowings with carrying amount of RMB14,700,000 as at 31 December 2016 were fully settled and no further bank borrowings were raised during the year ended 31 December 2017. No additional disclosure as transitional provision adopted.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group did not have such instruments measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2017 (Continued)

Annual Improvements to HKFRSs 2014-2016 Cycle — Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Annual improvements to HKFRSs (2014–2016 cycle) include an amendment to HKFRS 12 that clarifies that, when an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5 *Non-current Assets held for Sale and Discontinued operations*, it is not required to disclose summarised financial information for that subsidiary, joint venture or associate, as required by HKFRS 12 *Disclosure of Interests in Other Entities*.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements.

(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 HKFRS 2	Classification and Measurement of Share-Based Payment Transactions ¹
HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ¹
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
HKFRS 16	Leases ²
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatments ²
HKFRS 17	Insurance Contract ³

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

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

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

Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 — 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

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.

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 have no significant impact on the amounts reported on revenue and may result more disclosures relating to revenue is required.

HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Total foreign currency transactions of the Group for the year ended 31 December 2017 amounted to approximately RMB792,000 (2016: RMB3,372,000). All of the foreign currency transactions are in USD. The Directors do not expect the adoption of HK(IFIC)-Int 22 as compared with the current accounting policy would result in significant impact on the Group's results.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

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

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

The Directors anticipate the application of Amendments to HKFRS 9 have no impact as the Group do not have prepayable financial assets with negative compensation.

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 2017 amounted to approximately RMB2,826,000 (2016: 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 2017

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

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

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

HKFRS 17 — Insurance Contract

The HKFRS 17 is not applicable as the Group is not engaged in insurance business.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

4. Significant Accounting Policies (Continued)

(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	5 years and 8 months
Computer Software	10 years

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

4. Significant Accounting Policies (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

4. Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

Loans and receivables (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

4. Significant Accounting Policies (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

4. Significant Accounting Policies (Continued)

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

4. Significant Accounting Policies (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

4. Significant Accounting Policies (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

4. Significant Accounting Policies (Continued)

(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.

- (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 2017

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 2017

6. Segment Information (Continued)

The following customers with transactions have exceeded 10% of the Group's revenue. During the year ended 31 December 2017, revenue derived from these customers is as follows:

	2017 RMB'000	2016 RMB'000
Client A	43,857	30,544
Client B	19,399	44,088

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:

	2017 RMB'000	2016 RMB'000
Revenue		
Sales of LED beads	115,945	137,163
Sales of LED lighting products	792	4,827
	116,737	141,990
Other income and gains		
Bank interest income	11	2
Gain on disposal of property, plant and equipment	54	—
Government grants (Note)	1,991	173
Others	232	—
	2,288	175

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 2017

8. Profit Before Income Tax Expense

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

	2017 RMB'000	2016 RMB'000
Cost of inventories sold	91,626	108,802
Depreciation of property, plant and equipment	2,864	2,551
Amortisation of intangible assets, included in cost of sales	682	439
Impairment loss on trade receivables	330	392
Auditors' remuneration	821	582
Operating lease rental in respect of building	390	390
Research and development costs	1,220	1,032
Employee costs (including Directors' remuneration) (Note 10)		
— Wages, salaries and other benefits	6,521	5,251
— Contribution to defined contribution pension plans	1,057	1,000
Listing expenses	—	10,851
Exchange loss, net	80	49

9. Finance Costs

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings repayable within five years	143	678

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 2017					
<i>Executive Directors:</i>					
Mr. Zhao Yi Wen	(a)	312	79	8	399
Mr. Lin Qi Jian	(b)	208	78	7	293
Mr. Chan Wing Kin	(a)	—	624	16	640
<i>Non-executive Director:</i>					
Mr. Chiu Kwai San	(c)	104	—	—	104
<i>Independence Non-executive Directors:</i>					
Professor Chow Wai Shing, Tommy	(d)	104	—	—	104
Dr. Wu Wing Kuen, B.B.S.	(d)	104	—	—	104
Mr. Chan Chung Kik, Lewis	(d)	104	—	—	104
Total		936	781	31	1,748
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 Wing Kuen, B.B.S.	(d)	1	—	—	1
Mr. Chan Chung Kik, Lewis	(d)	1	—	—	1
Total		7	730	30	767

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 2017

11. Five Highest Paid Individuals

The five highest paid individuals of the Group for the year included 3 (2016: 2) Directors whose emoluments are reflected in the disclosures in Note 10. The emoluments of the remaining 2 (2016: 3) highest paid individuals for the year are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	100	92
Performance related bonuses	43	57
Contribution to defined contribution pension plans	9	18
	152	167

Their remuneration fell within the following bands:

	2017 No. of individuals	2016 No. of individuals
Nil to HKD1,000,000	2	3

During the years ended 31 December 2017 and 2016, 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 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

12. Income Tax Expense (Continued)

During the year ended 31 December 2016, 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.

In 2017, the Group’s wholly-owned subsidiary, Zhuhai HongGuang Lighting Fixture Company Limited (“Zhuhai HongGuang”) (珠海宏光照明器材有限公司) was awarded a “New and High Technology Enterprise Certificate” (高新技術企業證書). As a result, Zhuhai HongGuang is entitled to a tax preference with a reduction of the EIT rate from 25% to 15% for the period from 1 January 2016 to 31 December 2018. The over-provision for approximately RMB2,550,000 representing the over-provision EIT for the year ended 31 December 2016 after the Company obtained this concession in 2017.

	2017 RMB'000	2016 RMB'000
Current income tax — PRC EIT		
— tax for the year	3,460	6,474
— (Over)/under provision in respect of prior years	(2,550)	599
Deferred tax (Note 24)	(249)	48
	661	7,121

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:

	2017 RMB'000	2016 RMB'000
Profit before income tax expense	13,494	13,007
At the PRC’s statutory enterprise income tax rate of 15% (2016: 25%)	2,024	3,252
Effect of different tax rates of subsidiaries operating in other jurisdiction	(118)	1,111
Effect of non-deductible expenses	1,306	2,159
Effect of non-taxable income	(1)	—
(Over)/under provision in respect of prior years	(2,550)	599
Income tax expense	661	7,121

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 RMB12,833,000 (2016: RMB5,886,000), and the weighted average number of ordinary shares of 400,000,000 issued during the year ended 31 December 2017 (2016: 300,546,000).

The Company did not have any potential dilutive shares for the years ended 31 December 2017 and 2016. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

14 Dividend

No dividend has been paid or declared by the Company for the years ended 31 December 2017 and 2016.

15. Property, Plant and Equipment

	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost					
At 1 January 2016	26,783	148	73	125	27,129
Additions	596	—	—	75	671
At 31 December 2016 and 1 January 2017	27,379	148	73	200	27,800
Additions	6,492	—	—	—	6,492
Disposals	(300)	—	—	—	(300)
At 31 December 2017	33,571	148	73	200	33,992
Accumulated depreciation					
At 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 and 1 January 2017	13,285	70	64	24	13,443
Depreciation charge for the year	2,817	27	2	18	2,864
Written back on disposal	(54)	—	—	—	(54)
At 31 December 2017	16,048	97	66	42	16,253
Net book value					
At 31 December 2017	17,523	51	7	158	17,739
At 31 December 2016	14,094	78	9	176	14,357

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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, 1 January 2017 and 31 December 2017	3,600	465	4,065
Accumulated amortisation			
At 1 January 2016	—	—	—
Amortisation charge for the year	424	15	439
At 31 December 2016 and January 2017	424	15	439
Amortisation charge for the year	635	47	682
At 31 December 2017	1,059	62	1,121
Net Book Value			
At 31 December 2017	2,541	403	2,944
At 31 December 2016	3,176	450	3,626

17. Inventories

	2017 RMB'000	2016 RMB'000
Raw materials	6,736	3,327
Finished goods	9,322	7,799
	16,058	11,126

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

18. Trade and Bills Receivables

	2017 RMB'000	2016 RMB'000
Trade receivables	85,378	84,302
Bills receivable	1,733	4,917
	87,111	89,219

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:

	2017 RMB'000	2016 RMB'000
0 to 30 days	21,328	22,865
31 to 60 days	15,774	23,927
61 to 90 days	11,984	14,425
91 to 120 days	7,264	8,619
121 to 365 days	30,114	19,398
Over 1 year	3,866	2,874
	90,330	92,108
Less: Impairment of trade and bills receivables	(3,219)	(2,889)
	87,111	89,219

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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:

	2017 RMB'000	2016 RMB'000
Past due for less than 30 days	10,165	7,091
Past due for more than 30 days but less than 60 days	10,010	13,219
Past due for more than 60 days but less than 90 days	8,389	6,348
Past due for more than 90 days but less than 120 days	2,983	2,772
Past due for more than 120 days	12,660	2,734
	44,207	32,164

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 Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The below table reconciled the impairment loss of trade receivables:

	2017 RMB'000	2016 RMB'000
At beginning of the year	2,889	2,497
Impairment loss recognised	516	392
Reversal of provision during the year	(186)	—
At end of the year	3,219	2,889

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

19. Prepayments and Other Receivables

	2017 RMB'000	2016 RMB'000
Other receivables (note (i))	51	56,439
Prepayments (note (ii))	4,376	771
	4,427	57,210

Notes:

- (i) The amount includes receivable of proceeds from share placing during the year ended 31 December 2016 (see note 25 (ii)), The balance has been fully received in January 2017.
- (ii) The amounts includes the prepayment to the independent third parties suppliers amounted to approximately RMB3,584,000 for purchases of raw material.

20. Cash and Cash Equivalents

	2017 RMB'000	2016 RMB'000
Cash and bank balances	15,815	577
Denominated in RMB	2,720	430
Denominated in HK\$	13,095	147
Cash and cash equivalents	15,815	577

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

21. Trade Payables

	2017 RMB'000	2016 RMB'000
Trade payables	10,956	25,715

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

	2017 RMB'000	2016 RMB'000
0 to 30 days	3,132	12,989
31 to 60 days	2,381	4,782
61 to 90 days	1,128	1,303
91 to 120 days	1,297	218
121 to 365 days	538	681
Over 1 year	2,480	5,742
	10,956	25,715

22. Other Payables and Accruals

	2017 RMB'000	2016 RMB'000
Accrued payroll	466	421
Deposits received	7	6
Other payables and accruals (Note (i))	5,127	15,840
Amount due to a Director (Note (ii))	832	—
Other tax payables	1,232	2,891
	7,664	19,158

Notes:

- (i) The amount included approximately RMB925,000 (2016: RMB547,000) 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 and shareholder of the Company.
- (ii) Amount due to a Director of the Company — Mr. CHIU Kwai San, who is also a shareholder of the Company, is unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

23. Borrowings

	2017 RMB'000	2016 RMB'000
Secured interest-bearing bank borrowings:		
— Repayable on demand or within one year	—	14,700

During the year ended 31 December 2016, the Group's bank borrowings are secured by leasehold land and building held by a related company with common shareholders, corporate guarantee from a related company with common shareholders, 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% (2016: 5.05%).

All of the banking facilities were 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.

During the year ended 31 December 2017, all the bank borrowings were fully settled.

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 2016	624	4	628	(32)	596
Charged to profit or loss (Note 12)	(12)	—	(12)	(36)	(48)
At 31 December 2016 and 1 January 2017	612	4	616	(68)	548
Credited to profit or loss (Note 12)	193	—	193	56	249
At 31 December 2017	805	4	809	(12)	797

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

24. Deferred Tax Assets (Continued)

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets	809	616
Deferred tax liabilities	(12)	(68)
	797	548

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 2017 and 2016, 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 of the Company, it is not probable that the subsidiary will distribute its earnings accrued from the date of operation to 31 December 2017 in the foreseeable future. Accordingly, no deferred tax liabilities have been recognised as at 31 December 2017 and 2016.

25. Share Capital

The following changes in the Company's authorised and issued share capital took place for the years ended 31 December 2017 and 31 December 2016.

	Number of ordinary shares	RMB'000
Authorised:		
At 31 December 2017 (10,000,000,000 shares of HK\$0.01 each)	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, 1 January 2017 and 31 December 2017	400,000,000	3,580

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

25. Share Capital (Continued)

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.

26. Reserves

Details of the movements on the Group's reserves for the years ended 31 December 2017 and 2016 is presented in the consolidated statement of changes in equity. Movements on the Company's reserves are as follows:

The Company

	Share premium RMB'000 (note (a))	Exchange reserve RMB'000 (note (e))	Accumulated losses RMB'000 (note (f))	Total RMB'000
At 1 January 2016	—	(10)	(182)	(192)
Loss for the period	—	—	(639)	(639)
Exchange differences on translating foreign operations	—	(43)	—	(43)
Total comprehensive income for the period	—	(43)	(639)	(682)
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 and 1 January 2017	46,162	(53)	(821)	45,288
Loss for the year	—	—	(8,991)	(8,991)
Exchange differences on translating foreign operations	—	53	—	53
Total comprehensive income for the year	—	53	(8,991)	(8,938)
At 31 December 2017	46,162	—	(9,812)	36,350

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

26. Reserves (Continued)

The Company (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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:

	2017 RMB'000	2016 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	877	1,266
	2,826	3,215

28. Capital Commitments

	2017 RMB'000	2016 RMB'000
Commitments for the acquisition of property, plant and equipment: — contracted for but not provided	—	847

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

29. Holding Company Statement of Financial Position (i.e. the Company)

	Notes	2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		7	7
		7	7
Current assets			
Amounts due from subsidiaries		28,583	—
Other receivables		624	56,385
Cash and cash equivalents		12,761	8
		41,968	56,393
Current liabilities			
Amounts due to subsidiaries		—	6,982
Other payables		2,045	550
		2,045	7,532
Net assets		39,930	48,868
EQUITY			
Share capital	25	3,580	3,580
Reserves	26	36,350	45,288
Total equity		39,930	48,868

On behalf of the Directors of the Company

Zhao Yi Wen
Director

Lin Qi Jian
Director

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

30. Investment in Subsidiaries

Details of the subsidiaries as at 31 December 2017 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	Corporation	BVI Investment holding	1,000 ordinary shares of US\$1 each	100	—
HongGuang Lighting (Hong Kong) Holdings 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 36,000,000	—	100

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	
		2017 RMB'000	2016 RMB'000
珠海經濟特區利佳電子發展有限公司	Utility expense	1,420	1,615
珠海經濟特區利佳電子發展有限公司	Rental expense	390	390
		1,810	2,005

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

31. Related Party Transactions (Continued)

(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:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	1,301	733
Pension scheme contributions	31	30
	1,332	763

32. 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.

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables	102,977	146,235
Financial liabilities		
Measured at amortised cost	18,620	59,573

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

33. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

33. Financial Risk Management (Continued)

Interest rate risk (Continued)

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 as at 31 December 2016 are at variable rates which were fully settled in 2017. 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.

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 and other receivables, 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 2017, the Group has a certain concentration of credit risk as approximately 83% (2016: 80%) of the total trade receivables were due from the five largest customers.

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 2017 and 2016, based on the contractual undiscounted payments, is less than one year. The discounting impact of the Group's financial liabilities is insignificant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

34. 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:

	2017 RMB'000	2016 RMB'000
Trade payables	10,956	25,715
Other payables and accruals	7,664	19,158
Borrowings	—	14,700
Less: Cash and cash equivalents	(15,815)	(577)
Net debt	2,805	58,996
Equity	125,625	114,569
Net debt-to-equity ratio	2%	51%

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

35. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 22 March 2018.

FINANCIAL SUMMARY

Results

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	116,737	141,990	118,706	110,038
Profit before income tax expense	13,494	13,007	12,317	7,859
Income tax expense	(661)	(7,121)	(4,581)	(2,456)
Profit for the year	12,833	5,886	7,736	5,403

Assets and Liabilities

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	144,891	176,663	110,905	129,354
Total liabilities	19,266	62,094	57,733	87,075
Total equity	125,625	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.