清华同方
TSINGHUA TONGFANG

Neo-Neon®

# NEO-NEON HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
Stock Code: 1868.HK; 911868.TDR

# 2015 ANNUAL REPORT

Professional LED product research, development and production.

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Fan Xin *(Chairman) (appointed on 9 October 2015)*
Mr. Lu Zhi Cheng *(resigned on 9 October 2015)*
Mr. Wang Liang Hai
Mr. Seah Han Leong
Mr. Pan Jin
Mr. Ben Fan *(resigned on 20 January 2016)*

### Non-executive Director

Mr. Liu Wei Dong

### Independent non-executive Directors

Mr. Fan Ren Da Anthony
Mr. Liu Tian Min
Ms. Li Ming Qi

## AUDIT COMMITTEE

Ms. Li Ming Qi *(Chairman)*
Mr. Fan Ren Da Anthony
Mr. Liu Tian Min

## REMUNERATION COMMITTEE

Mr. Liu Tian Min *(Chairman)*
Mr. Fan Xin *(appointed on 9 October 2015)*
Mr. Fan Ren Da Anthony
Ms. Li Ming Qi
Mr. Lu Zhi Cheng *(resigned on 9 October 2015)*

## NOMINATION COMMITTEE

Mr. Fan Xin *(Chairman) (appointed on 9 October 2015)*
Mr. Lu Zhi Cheng *(resigned on 9 October 2015)*
Mr. Fan Ren Da Anthony
Mr. Liu Tian Min
Ms. Li Ming Qi

## RISK MANAGEMENT AND REGULATORY COMPLIANCE COMMITTEE (previously known as "Regulatory Compliance Committee")

Mr. Fan, Ren Da Anthony *(Chairman)*
Mr. Fan Xin *(appointed on 29 March 2016)*
Mr. Wang Liang Hai *(appointed on 29 March 2016)*
Mr. Seah Han Leong *(appointed on 29 March 2016)*
Mr. Pan Jin
Mr. Liu Wei Dong *(appointed on 29 March 2016)*
Mr. Liu Tian Min
Ms. Li Ming Qi

## AUTHORIZED REPRESENTATIVES

Mr. Seah Han Leong
Mr. Leung Lok Wai *(appointed on 2 March 2016)*
Mr. Chan Cheung *(resigned on 2 March 2016)*

## COMPANY SECRETARY

Mr. Leung Lok Wai *(appointed on 2 March 2016)*
Mr. Chan Cheung *(resigned on 2 March 2016)*

## HONG KONG BRANCH SHARE REGISTRAR

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

## AUDITOR

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

## LAWYER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

## PRINCIPAL BANKS

China Construction Bank Limited, HeShan Branch
Taishin International Bank, Hong Kong Branch
China Everbright Bank Company Limited, Jiangmen Branch

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 806-810
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

## PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

## COMPANY WEBSITE ADDRESS

www.neo-neon.com

## STOCK CODE

1868

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors and the management, I am pleased to present the report on the development status and operating results of Neo-Neon Holdings Limited (the "Company" or "Neo-Neon") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015.

Currently, the LED lighting industry is in a period of adjustment. On one hand, LED products have reached similar level of price-performance ratio compared with traditional lighting products in light of the maturity and popularity of technologies in the LED industry and accordingly, LED products have entered millions of households and sales of LED products have been growing significantly. On the other hand, large international lighting enterprises are gradually fading out as they lack a prominent competitive advantage.

In 2015, while maintaining an appropriate growth in sales, the Group reduced the number of orders for low-end lighting products and strengthened the channels and the distribution of specialized lighting products in the American market. We also reinforced brand management, changed production methods, increased the proportion of OEM products and improved our working capital position to promote the positive development of the Group. In 2015, through the efforts of all our employees, product gross margin of the Group reached approximately 27.8%, representing an increase of approximately 19.1% over approximately 8.7% in last year. We intensified the control of expenses and stepped up efforts on asset management and control, hence maintaining inventories at a reasonable level. A surplus was recorded for the first time since 2011.

In recent years, with the emergence of the Internet, cloud computing and other new technologies, people are no longer satisfied with the basic functions of LED lighting, such as high brightness, low power consumption, long life span and small-scale power needs, as well as the economic benefits resulted. Instead, they are more longing for LED solutions and the advanced combination of internet related things and cloud computing technology, starting from the perspective of human psychology, biology and sociology while taking multiple aspects into consideration, including the comfort of individuals, the safety of phototrophic organisms and the protection of the environment. Going forward, a profound integration of the LED lighting industry and information technology will be required to achieve cross-over integration in areas including internet related things, mobile internet, big data and cloud computing.

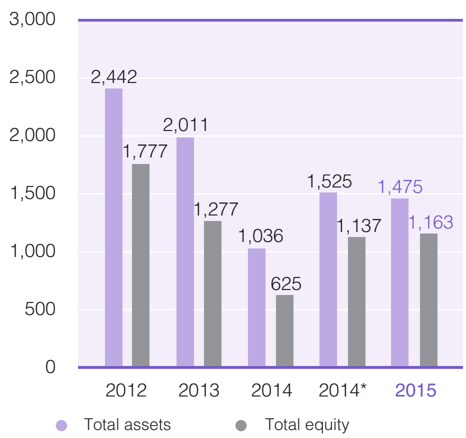
Under such new circumstances, the Group made further adjustments to its own development directions to improve operational efficiency and capacity, reshaped the value chain for industrial development to perfect the industry's chain of development and innovation. In the last quarter of 2015, the Group implemented structural reforms and practiced the system of business units by product, market and other features, building a road to sound and sustainable development. In 2016, the Group will strengthen the construction of a function system to actively promote and deepen "institutionalization, digitalization and informatization", reinforced scientific and technological innovation to accelerate the development of products in the direction toward intelligentization, informatization, quality and standardization, and increased efforts on the management of non-operating assets. Currently, the Group has cash of approximately RMB600 million in stock and a gearing ratio (the ratio of bank loans to total equity) of merely 8.2%. The Group intends to boost the LED lighting business to grow rapidly through acquisition.

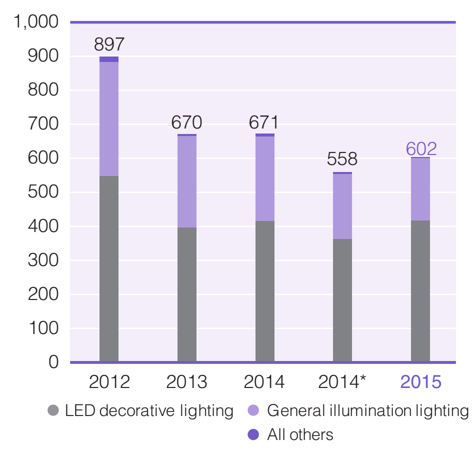
Finally, on behalf of the Board of Directors of Neo-Neon, I would like to express my heartfelt gratitude to all our employees for their efforts and contributions, to our customers and business partners for their strong support as well as to our shareholders for their trust. We have strived all along to provide people with a comfortable, safe and energy-conserving lighting environment! We have great confidence in the future development of the Group!

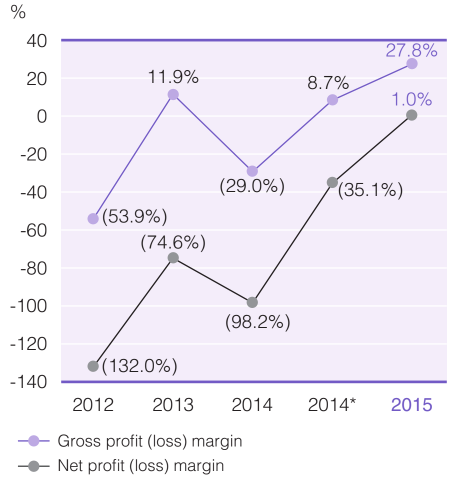
**Fan Xin**
*Chairman*
22 March 2016

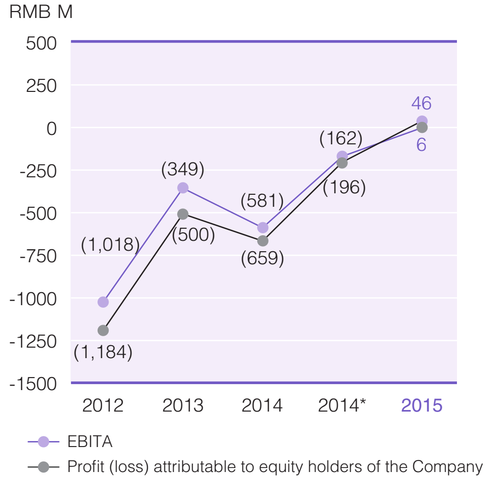
# FINANCIAL HIGHLIGHTS

| Expressed in RMB million | Year ended 31 March 2012 | 2013 | 2014 | Year ended 31 December 2014* | 2015 |
|---|---|---|---|---|---|
| Turnover | 897 | 670 | 671 | 558 | **602** |
| Gross profit (loss) | (484) | 80 | (195) | 48 | **167** |
| Profit (loss) attributable to owners of the Company | (1,184) | (500) | (659) | (196) | **6** |
| EBITA | (1,018) | (349) | (581) | (162) | **46** |
| Total assets | 2,442 | 2,011 | 1,036 | 1,525 | **1,475** |
| Total equity | 1,777 | 1,277 | 625 | 1,137 | **1,163** |
| Gross profit (loss) margin | (53.9%) | 11.9% | (29.0%) | 8.7% | **27.8%** |
| Net profit (loss) margin | (132.0%) | (74.6%) | (98.2%) | (35.1%) | **1.0%** |
| EPS (Loss)-basic (RMB cents) | (125.6) | (53.2) | (70.2) | (13.1) | **0.3** |




* For the period of nine months from 1 April 2014 to 31 December 2014.

# DIRECTORS, AND SENIOR MANAGEMENT PROFILES

## EXECUTIVE DIRECTORS

### Mr. Fan Xin (范新)

Mr. Fan Xin (范新), aged 55, was appointed as an executive Director and the chairman of the Board on 9 October 2015. He graduated with a master's degree in thermal engineering (熱能工程) from Tsinghua University in 1988. Mr. Fan is currently the president of Tsinghua Tongfang (stock code: 600100), a company listed on Shanghai Stock Exchange. Mr. Fan joined the Beijing Tsinghua Artificial Environmental Engineering Co. (北京清華人工環境工程公司) in 1993 and served as a senior engineer and the manager of a branch company. In 1997, this company was restructured with some other companies held by Tsinghua University and formed Tsinghua Tongfang. Tsinghua Tongfang has been listed on the Shanghai Stock Exchange since 27 June 1997. Mr. Fan served as the general manager of Tongfang Artificial Environment Co., Ltd. (同方人工環境有限公司), which is under Tsinghua Tongfang, during the period from 2000 to 2012. He became the vice president of Tsinghua Tongfang in 2012 and was promoted as the president of Tsinghua Tongfang in 2013. Since May 2013, Mr. Fan acted as a director of Tsinghua Tongfang and since September 2012, he acted as a director of THTF ES, the controlling shareholder of the Company. Mr. Fan has been a non-executive director of Technovator International Limited (stock code: 1206), a company listed on the Stock Exchange since March 2014.

### Mr. Wang Liang Hai (王良海)

Mr. Wang Liang Hai (王良海), aged 51, was appointed as an executive Director on 25 August 2014. He was awarded a master degree in Engineering from Tsinghua University. He was appointed as the vice president, general manager of multi-media industrial group and general manager of semiconductor and lighting industrial group of Tsinghua Tongfang since May 2010. Mr. Wang has served as deputy general manager of the digital TV system group and general manager of consumer electronics division, assistant president of Tsinghua Tongfang since 2007.

### Mr. Seah Han Leong (謝漢良)

Mr. Seah Han Leong (謝漢良), aged 53, was appointed as an executive Director on 25 August 2014, the president and the chief executive officer of the Company on 26 August 2014, and he is responsible for the day-to-day operations and international business of the Company. He is also the president of THTF Lighting Group Limited (同方照明產業集團有限公司), a wholly-owned subsidiary of the Company. He is also a founder, an executive director and chief operating officer of Technovator International Limited ("Technovator"), is responsible for the day-to-day operations and general management of Technovator and its subsidiaries. He was appointed as a director of Technovator on 25 May 2005 and was re-designated as an executive director of Technovator on 12 April 2011. Technovator is a company listed on the Main Board of the Stock Exchange (stock code: 1206). Mr. Seah received a certificate for attending the INSEAD-T.A.C. Management Development Programme from INSEAD Fontainebleau, France in 2003 and Technician Diploma in Electronics and Communication Engineering from Singapore Polytechnic in 1984. Prior to founding Technovator, Mr. Seah joined Honeywell Southeast Asia in 1990 and worked in various sales management positions covering different countries. In 1994, he was transferred to Honeywell China Inc. and his last position with Honeywell was the sales manager covering the Greater China market. He was also the managing director of TAC Controls Asia Pte Ltd from 1998 to 2005. Mr. Seah was recognized as the key personnel of the Asia Pacific management team of TAC Controls Asia Pte Ltd. He received various awards including Winners Club Award by Honeywell Asia Pacific Inc. and President's Club Award by Honeywell Inc. Mr. Seah was admitted as ordinary member of the Singapore Institute of Directors on 18 April 2012.

### Mr. Pan Jin (潘晉)

Mr. Pan Jin (潘晉), aged 54, was appointed as an executive Director on 25 August 2014 and the vice president of the Company on 26 August 2014, and he is responsible for the investment, property management and the science park development business of the Company. He is also the vice president of THTF Lighting Group Limited (同方照明產業集團有限公司), a wholly-owned subsidiary of the Company. He was awarded a PhD of Engineering from Tsinghua University. Since 2003, Mr. Pan has served as deputy general manager and general manager of the Investment Development Department of Tsinghua Tongfang, and the assistant president of Tsinghua Tongfang and the general manager of the Investment Development Department. Mr. Pan is also a director of Tongfang Guoxin Electronics Co., Ltd. (stock code: 002049), which is listed on Shenzhen Stock Exchange in China. Mr. Pan acted as non-executive director of Tai Shing International (Holdings) Limited (stock code: 8103) which is listed on the GEM of the Stock Exchange from 22 October 2010 to 28 October 2015.

## NON-EXECUTIVE DIRECTOR

### Mr. Liu Wei Dong (劉衛東)

Mr. Liu Wei Dong (劉衛東), aged 53, was appointed as a non-executive Director on 25 August 2014. He is an accountant and holds an MBA. He graduated from School of Economics and Management of Tsinghua University, has more than 20 years of management experience in finance and auditing. Since 2004, Mr. Liu has served as deputy general manager of the audit department, vice general accountant and general accountant of Tsinghua Tongfang. He is currently the vice president, chief financial officer and finance director of Tsinghua Tongfang.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. Fan, Ren Da Anthony (范仁達)

Mr. Fan, Ren Da Anthony (范仁達), aged 56, was appointed as an independent non-executive Director on 25 August 2014. In 1986, Mr. Fan received his Master of Business Administration from the University of Dallas of the United States. Mr. Fan is an independent non-executive director of Uni-President China Holdings Ltd. (stock code: 220), Citic Resources Holdings Limited (stock code: 1205), Shanghai Industrial Urban Development Group Limited (stock code: 563), Renhe Commercial Holdings Company Limited (stock code: 1387), Technovator International Limited (stock code: 1206), Guodian Technology & Environment Group Corporation Limited (stock code: 1296), Tenfu (Cayman) Holdings Company Limited (stock code: 6868), China Development Bank International Investment Limited (stock code: 1062), Hong Kong Resources Holdings Company Limited (stock code: 2882), CGN New Energy Holdings Co., Ltd. (stock code: 1811), LT Holdings Limited (stock code: 112) and Raymond Industrial Limited (stock code: 229), all of which are listed on the Main Board of the Hong Kong Stock Exchange. Mr. Fan is also the President of the Hong Kong Independent Non-Executive Director Association.

### Mr. Liu Tian Min (劉天民)

Mr. Liu Tian Min (劉天民), aged 54, was appointed as an independent non-executive Director on 25 August 2014. He is the managing partner of SB China Venture Capital Limited, non-executive director of Technovator International Limited (stock code: 1206) and the independent director of Taiwan Wax Company, Ltd. (stock code: 1742). Mr. Liu served as vice president of Tsinghua Tongfang and the general manager of digital TV system group from 2003 to 2009. Technovator International Limited is listed on the Main Board of Stock Exchange, and Taiwan Wax Company, Ltd. is listed on Taiwan Stock Exchange.

### Ms. Li Ming Qi (李明綺)

Ms. Li Ming Qi (李明綺), aged 48, was appointed as an independent non-executive Director on 25 August 2014. She was graduated from Fudan University in Shanghai. She received a Bachelor of Economics and has also obtained a Master of Economics from the Southern Methodist University and a Master of Science in Management and Administrative Sciences from the University of Texas in Dallas. She served independent director of Sino Gas International Holdings, Inc., which is listed on the Over-The-Counter Bulletin Board in the US (stock code: SGAS) from March 2011 to November 2014. Ms. Li served as senior associate of JP Morgan Chase, associate/portfolio manager of BHF Capital, vice president/portfolio manager of Transamerica Business Capital, vice president/senior relationship manager of Morgan Stanley and hedge fund controller of Mercury Capital Management.

## SENIOR MANAGEMENT

Mr. Seah Han Leong (謝漢良). Please refer to the details set out above under the paragraph headed "Executive Directors" in this section.

Mr. Pan Jin (潘晉). Please refer to the details set out above under the paragraph headed "Executive Directors" in this section.

### Mr. Fu Kai (付凱)

Mr. Fu Kai (付凱), aged 41, was appointed as the chief financial officer of the Company on 9 October 2015. He is also a Certified Tax Agent and an accountant. He graduated from Department of Accounting of College of Economics of Hubei University. Mr. Fu is currently the chief accountant of the Company, mainly responsible for accounting and financial management of the Company. He is also the chief accountant and the general manager of the financial centre of THTF Lighting Group Limited (同方照明產業集團有限公司), a wholly-owned subsidiary of the Company. He has served as the cost manager and financial manager of the financial department of Tongfang Gigamega Tech Co., Ltd (同方吉兆科技有限公司), the financial manager of financial department of digital TV system group of Tsinghua Tongfang, as well as the assistant general manager and deputy general manager of the financial department of Tsinghua Tongfang since 2004.

### Mr. Fan Pong Yang (樊邦揚)

Mr. Fan Pong Yang (樊邦揚), aged 60, is the assistant president of the Company. He is currently a Jiangmen Municipal Committee member of the Political Consultative Conference of Guangdong Province (廣東省江門市政協委員) and the Honorary President of Jiangmen Association of Taiwan Businesses (江門市台商協會). Mr. Fan has worked in the LED lighting industry since 1990, focusing on the research and development as well as the promotion of LED semiconductor lighting industry. From October 2006 to September 2014, he served as the executive Director of the Company.

### Mr. Jang Jann Huan (張震寰)

Mr. Jang Jann Huan (張震寰), aged 62, graduated from the Texas Tech University, where he obtained a Doctor of Philosophy degree in Business Administration. He is the assistant president of the Company, mainly responsible for the Company's business in the US. He is also currently the chief executive officer (CEO) and the acting CEO of American Lighting and Tivoli, both of which are the wholly-owned subsidiary of the Company, respectively. From 1999 to 2004, Mr. Jang was responsible for expanding our business in the US. From 2004 to 2006, he was the CEO of Tivoli. From 2006 to 2009, he served as the director of the marketing department, the executive Director and the CEO of the Company.

### Mr. Xu Dong (許東)

Mr. Xu Dong (許東), aged 49, graduated from Beijing University of Aeronautics and Astronautics and is currently an accountant. He is the assistant president of the Company, mainly responsible for the operation management, including information system, storage, logistics and operations. He is also the vice president and the general manager of operation centre of THTF Lighting Group Limited (同方照明產業集團有限公司), a wholly-owned subsidiary of the Company. Since 1997, he has served as the financial manager of the computer company, the chief financial officer of the computer systems group, the chief financial officer as well as the chief operation officer of the semiconductor lighting group, of Tsinghua Tongfang.

### Mr. Liu Tong (劉彤)

Mr. Liu Tong (劉彤), aged 47, was awarded a master degree in Engineering from Tsinghua University (清華大學). He is the assistant president of the Company, mainly responsible for the Company's lighting business in the PRC. He is also the vice president and general manager of China Lighting Business Unit of THTF Lighting Group Limited (同方照明產業集團有限公司), a wholly-owned subsidiary of the Company. Since 1997, he has served as the deputy general manager of Tsinghua Tongfang Artificial Environment Co., Ltd, the deputy general manager of production base construction department of Tsinghua Tongfang, the general manager of lighting business division of Tsinghua Tongfang, as well as the general manager of Beijing Tongfang Lighting Technology Co., Ltd.

### Mr. Xu Hui Lai (徐惠來)

Mr. Xu Hui Lai (徐惠來), aged 44, was awarded a bachelor degree in Laws from the China Youth University for Political Sciences (中國青年政治學院). He is the assistant president of the Company, mainly responsible for human resources and administration of the Company. He is also the vice president and general manager of human resources and administrative centre of THTF Lighting Group Limited (同方照明產業集團有限公司), a wholly-owned subsidiary of the Company. Since 2000, he has served as the deputy head of human resources department of Nuctech Company Limited, the assistant general manager of human resources department of Tsinghua Tongfang, the director of human resources department of 同方光電科技有限公司 and the director of human resource of semiconductor lighting group of Tsinghua Tongfang.

### Mr. Zhou Fu Min (周福民)

Mr. Zhou Fu Min (周福民), aged 44, was awarded a master degree in Laws from Tsinghua University (清華大學). He is the assistant president of the Company, mainly responsible for the legal affairs of the Company. Since 1998, he has served as the chief counsel and the general manager of the legal department of Yongjin Industry (Group) Co., Ltd., the general manager of the trust department, the general manager of legal department and the vice president of Yunnan International Trust Co., Ltd. (雲南國際信託有限公司), and the assistant president of Tsinghua Tongfang.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

The revenue for the year ended 31 December 2015 was approximately RMB602.4 million, as compared to approximately RMB558.2 million for the nine months ended 31 December 2014, which remained stable, mainly attributable to (1) the selective acceptance of orders (during the year, the Group took a prudent approaching in dealing with orders by selecting the orders with relatively higher profit margin), and (2) the relatively slow-down in economy in some European countries.

### Cost of goods sold

For the year ended 31 December 2015, the cost of goods sold was approximately RMB435.2 million, representing a decrease of approximately RMB74.6 million over approximately RMB509.8 million for the nine months ended 31 December 2014.

### Gross profit and gross profit margin

For the year ended 31 December 2015, the Group recorded a gross profit of approximately RMB167.3 million, representing a significant improvement as compared with the gross profit of approximately RMB48.4 million for the nine months ended 31 December 2014.

The Group recorded a gross profit margin of approximately 27.8% for the year ended 31 December 2015, representing an increase of 19.1% over a gross profit margin of approximately 8.7% for the nine months ended 31 December 2014, primarily due to (1) the improvement on impairment provision for inventory of approximately RMB3.7 million (the nine months ended 31 December 2014: RMB37.9 million), (2) the selective acceptance of orders (during the year, the Group took a prudent approaching to sales by selecting the orders with relatively higher profit margin), and (3) a decrease in manufacturing expenses by approximately RMB17.8 million, mainly comprised of staff salaries, depreciation costs and utility charges.

### Other gains, losses and expenses

For the year ended 31 December 2015, the Group recorded other gains of approximately RMB58.9 million, representing an increase of approximately RMB74.0 million over other losses of RMB15.1 million for the nine months ended 31 December 2014, due to (1) the net gains of approximately RMB27.4 million resulting from sales of workshops and land use right of Yinyu Semiconductor Photovoltaic (Guangdong) Limited (廣東銀雨芯片半導體有限公司) ("Yinyu Semiconductor"), a subsidiary of the Company, as compared to RMB52.8 million from disposal of plant and land of Heshan Tongfang Lighting Technology Co., Ltd. (鶴山同方照明科技有限公司) ("Heshan Tongfang"), a subsidiary of the Company, for the nine months ended 31 December 2014, (2) the reversal of allowance for bad debt amounting to RMB13.9 million for the year under review due to the improvement on receivables recovery, as compared to allowance for bad debt amounting to RMB47.5 million for the nine months ended 31 December 2014, and (3) the changes in exchange rates, resulting in material increase in foreign exchange gains of RMB22.8 million for the year ended 31 December 2015 as compared to RMB1.5 million for the nine months ended 31 December 2014.

### Impairment loss of property, plant and equipment

As at 31 December 2015, the amount of impairment losses recognised in respect of property, plant and equipment was nil (31 December 2014: RMB32.7 million).

## Operating expenses

The distribution and selling expenses were mainly comprised of staff costs, promotion and advertising, freight and transportation, agency and custom costs and rent and rates. For the year ended 31 December 2015, the distribution and selling expenses of the Group were approximately RMB88.5 million, representing an increase of approximately RMB19.9 million or 29.0% over approximately RMB68.6 million for the nine months ended 31 December 2014, mainly due to (1) that RMB88.5 million covered twelve months while RMB68.6 million covered nine months, (2) the increase in staff costs for approximately RMB10.8 million.

The administrative expenses were mainly comprised of staff salaries, directors remuneration, depreciation charge, professional and legal fee and share option related expenses. The administrative expenses for the year ended 31 December 2015 were approximately RMB135.6 million, representing an increase of approximately RMB10.7 million or 8.6% over approximately RMB124.9 million for the nine months ended 31 December 2014, mainly due to depreciation of idle fixed, resulting in the increase in depreciation on fixed assets for approximately RMB9.2 million.

## Finance costs

The finance costs for the year ended 31 December 2015 were approximately RMB2.7 million, representing a decrease over RMB4.2 million for the nine months ended 31 December 2014, mainly due to the bank loan of RMB95.1 million as at 31 December 2015, representing a decrease of RMB17.7 million as compared to the bank loan of RMB112.8 million as at 31 December 2014.

## Taxation

For the year ended 31 December 2015, the Group's tax charge of RMB5.0 million (31 December 2014: RMB4.2 million) mainly included taxation imposed in overseas jurisdictions of approximately RMB5.5 million, and deferred taxation of approximately RMB0.5 million.

## Profit attributable to owners of the Company

For year ended 31 December 2015, the Group recorded a profit attributable to owners of the Company of RMB5.8 million, as compared to a loss attributable to owners of the Company of RMB196.0 million for the nine months ended 31 December 2014. Such improvement was mainly attributable to (1) an increase in gross profit margin of 118.9 million due to selective acceptance of orders with relatively high gross profit margins, which resulted in the gross profit for approximately RMB167.3 million for the year ended 31 December 2015 as compared to RMB48.4 million for the nine months ended 31 December 2014, (2) the net gains on disposal of property, plant and equipment and prepaid lease agreements of RMB27.4 million for the year ended 31 December 2015, representing a decrease by RMB25.3 million against RMB52.7 million for the nine months ended 31 December 2014, (3) the impairment losses recognised in respect of property, plant and equipment for the year ended 31 December 2015 being nil, as compared to RMB32.7 million for the nine months ended 31 December 2014, (4) the net reversal of allowance for bad and doubtful debts of approximately RMB13.9 million, representing a decrease in provision on receivables of RMB61.4 million over RMB47.5 million for the nine months ended 31 December 2014, and (5) the foreign exchange gain of RMB22.8 million for the year ended 31 December 2015, representing an increase of RMB21.3 million over RMB1.5 million for the nine months ended 31 December 2014.

## Financial Resources and Liquidity and Gearing Ratio

The Group maintained a stable financial position. As at 31 December 2015, the Group had bank balances of RMB615.7 million and short-term bank loans of RMB95.1 million. The gearing ratio representing the ratio of short-term bank loans to total equity of the Group was 8.2% as at 31 December 2015 (31 December 2014: 9.9%). Such decrease was mainly caused by decrease in bank loan of RMB17.7 million for the year under review against the year of 2014.

## Cash flows

The Group's financial resources mainly consist of cash flow from investing activities and financing activities.

The Group recorded (1) cash outflow from operating activities of approximately RMB44.7 million (the nine months ended 31 December 2014: RMB56.1 million) for the year ended 31 December 2015, (2) cash outflow from investing activities of approximately RMB25.4 million (the nine months ended 31 December 2014: RMB2.4 million) for the year ended 31 December 2015, and (3) cash outflow from financing activities of approximately RMB24.9 million (the nine months ended 31 December 2014: cash inflow of approximately RMB646.5 million) for year ended 31 December 2015.

The above decrease in cash outflow from operating activities was mainly attributable to the increase in trade and other receivables of approximately RMB17.1 million.

The above increase in cash outflow from investing activities was mainly attributable to placement of pledged bank deposits of approximately RMB20.4 million.

The above increase in cash outflow from financing activities was mainly attributable to repayment of bank loan of approximately RMB49.4 million, during the year ended 31 December 2015.

## Assets and liabilities

As at 31 December 2015, the Group recorded the total assets of approximately RMB1,475.0 million (31 December 2014: RMB1,524.6 million) and total liabilities of approximately RMB311.5 million (31 December 2014: RMB387.8 million).

As at 31 December 2015 the Group's current assets and non-current assets were approximately RMB1,048.1 million (31 December 2014: RMB1,068.7 million) and approximately RMB426.9 million (31 December 2014: RMB455.9 million) respectively. The decrease in assets was mainly attributable to the sales of workshops and land use right of Yinyu Semiconductor.

As at 31 December 2015, the Group's current liabilities and long-term liabilities were approximately RMB293.6 million (31 December 2014: RMB367.8 million) and approximately RMB17.9 million (31 December 2014: RMB20.0 million), respectively. The decrease in current liabilities was mainly attributable to (1) the bank loan of RMB95.1 million as at 31 December 2015, representing a decrease of RMB17.7 million as compared to RMB112.8 million as at 31 December 2014, and (2) the refunding of the government grants amounting to RMB37.2 million due to change of the Group's investment plan in one of the economic development zones.

### Foreign Exchange Risk

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the functional currency of respective entity, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

### Charge on Assets

As at 31 December 2015, the Group had pledged certain of its land and buildings with an aggregate carrying value of RMB20.1 million (31 December 2014: RMB10.7 million), certain of its trade receivables and inventories with an aggregate carrying value of RMB51.4 million (31 December 2014: RMB27.0 million), and also bank deposits of aggregate carrying value of RMB20.4 million (31 December 2014: RMB1.2 million) to secure bank credit facilities granted to the Group.

### Capital Commitments

As at 31 December 2015, the Group had capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment of RMB4.6 million (31 December 2014: RMB13.0 million).

### Contingent Liabilities

During the year ended 31 December 2015, certain subsidiaries are parties to various legal claims in their ordinary course of business. In the opinion of the Directors, these claims would not have a significant impact on the Group's results and financial position.

### Capital Structure

As at 31 December 2015, the issued share capital of the Company was RMB171,896,724 (equivalent to HK$193,931,969) (31 December 2014: RMB171,896,724 (equivalent to HK$193,931,969)), divided into 1,939,319,694 ordinary shares of HK$0.10 each.

## MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT

There were no significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets at the date of this announcement.

### Final Dividend

The Board resolved not to declare any dividend for the year ended 31 December 2015 (nine months ended 31 December 2014: nil).

# BUSINESS REVIEW

## Overview

During the year, the Group seized the opportunity to explore the overseas market without slack, vigorously developed sales channels in the PRC market, increased the gross margins, improved the management level, and revitalized idle assets, which lead to the improvement in operating performance.

During the year, the sales revenue of American Lighting Inc., an indirect wholly owned subsidiary of the Company, based in Denver, USA has outperformed the expectation. The primary fuels are its opportunity to drive strong revenue growth in large national retailers, its step-up presence in e-commerce, and that American Lighting Inc. has started harvesting success in newly developed products. Management believes the momentum will continue in the foreseeable future.

During the year, the Group focused on better after-sales services and improving customer satisfaction. In addition, to prevent controversial disputes and litigation, the Group strengthened its quality control over production and enhanced the effectiveness in management.

## Sales and Distribution

During the year, the Group took efforts in distribution and marketing, improving and expanding the sales channel of general LED lighting products. The Group proactively made deployment in branding establishment and sales channel in the world's fastest growing markets and brought to its customers better sales services in energy-saving technologies and solutions.

## Research and Development ("R&D")

The Group's R&D efforts were driven towards product design, new product development and production efficiency improvement in order to reduce the overall production cost.

## Employees and Remuneration Policy

As at 31 December 2015, the Group's total number of employees was approximately 2,800 (31 December 2014: 3,300). The basic remunerations of the employees are determined with reference to the industry remuneration benchmark, the employees' experience and their performance. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. Apart from the basic remuneration and statutory benefits required by laws, the Group provides discretionary bonus based upon the Group's results and the individual performance of the staff.

## Prospects

The Company is committed to a sustainable social development of low-carbon economy, and providing the human comfort, safety, energy-saving light environment with more than 30 years of LED lighting industry expertise and experience.

# DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 36 to the consolidated financial statements.

## BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2015 has been set out in the section headed "Management Discussion and Analysis" of this annual report.

## FUTURE DEVELOPMENT

An indication of the future development in the Group's business is shown on has been set out in the sections headed "Management Discussion and Analysis" and "Chairman's Statement" of this annual report.

## SUBSIDIARIES

Details of the principal subsidiaries of the Group as of 31 December 2015 as set out in note 36 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2015 are set out in the "Consolidated Statement of Comprehensive Income" on page 44. The Board resolved not to declare any dividend for the year ended 31 December 2015 (31 December 2014: nil).

## ANNUAL GENERAL MEETING

The AGM of the Company will be held in Hong Kong on 13 May 2016. Notice of the annual general meeting will be issued and disseminated to shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on Friday, 13 May 2016, the register of members of the Company will be closed from Wednesday, 11 May 2016 to Friday, 13 May 2016, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 10 May 2016. The record date for the entitlement to attend the annual general meeting will be on Friday, 13 May 2016.

## PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the Group's property, plant and equipment are set out in note 15 to the consolidated financial statements. Movements during the year in the Group's investment properties are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

## RESERVES

Details of movements in reserves of the Group are set out in consolidated statement of changes in equity of the financial statement. At 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the company was RMB679,559,000.

## PRE-EMPTIVE RIGHTS

There are no pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

# DIRECTORS

The Directors of the Company up to the date of this report are:

### Executive Directors

Mr. Fan Xin *(Chairman)*(1)
Mr. Wang Liang Hai
Mr. Seah Han Leong
Mr. Pan Jin
Mr. Ben Fan(2) *(resigned on 20 January 2016)*

### Non-executive Director

Mr. Liu Wei Dong

### Independent non-executive Directors

Mr. Fan Ren Da, Anthony
Mr. Liu Tian Min
Ms. Li Ming Qi

Notes:

(1) Each of Mr. Lu Zhi Cheng resigned as an executive Director and chairman of the Board on 9 October 2015 and Mr. Fan Xin was appointed as an executive Director and chairman of the Board on the same date.

(2) Mr. Ben Fan resigned as an executive Director on 20 January 2016.

# DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

The Directors' updated information is set out on page 6 to page 9 of this report.

# DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance in relation to the Group's business to which the Company or any of subsidiaries and fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the year ended review.

# DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year ended review was the Company or any of its subsidiaries a party to any arrangement whose objectives are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than under the 2006 Share Option Scheme, as disclosed below.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time for the year ended 31 December 2015 and up to the date hereof.

## DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests or short positions of the Directors and the chief executives in the Shares, underlying Shares and debentures of the Company and its associated corporations of the Company, within the meaning of Part XV of the SFO which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

### Long positions in the Shares and underlying Shares of the Company:

| Name | Capacity | Number of Ordinary Shares as at 31 December 2015 | Percentage of total issued share capital as at 31 December 2015 |
|---|---|---|---|
| Mr. Wang Liang Hai(1) | Beneficial owner | 1,500,000 | 0.08% |
| Mr. Seah Han Leong(2) | Beneficial owner | 1,500,000 | 0.08% |
| Mr. Pan Jin(3) | Beneficial owner | 1,500,000 | 0.08% |
| Mr. Ben Fan(4) | Beneficial owner, spouse interest and interest of controlled corporation | 364,866,000 | 18.81% |
| Mr. Liu Wei Dong(5) | Beneficial owner | 1,000,000 | 0.05% |
| Mr. Fan, Ren Da Anthony(6) | Beneficial owner | 600,000 | 0.03% |
| Mr. Liu Tian Min(7) | Beneficial owner | 600,000 | 0.03% |
| Ms. Li Ming Qi(8) | Beneficial owner | 600,000 | 0.03% |

Notes:

(1) Mr. Wang Liang Hai is deemed to be interested in 1,500,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015.

(2) Mr. Seah Han Leong is deemed to be interested in 1,500,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015.

(3) Mr. Pan Jin is deemed to be interested in 1,500,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015.

(4) Mr. Ben beneficially holds 600,000 Shares and holds the entire issued share capital of Rightmass Agents Limited ("Rightmass") and is therefore deemed to be interested in all 336,400,000 Shares held by Rightmass. Mr. Ben Fan is the spouse of Ms. Michelle Wong and he is therefore deemed to be interested in all 26,366,000 Shares in which Ms. Michelle Wong is interested in by reason that she directly holds 10,668,000 Shares and holds 35% interest in Charm Light International Limited, which in turn holds 15,698,000 Shares of the Company. Mr. Ben is also deemed to be interested in 1,500,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015.

Mr. Ben Fan ceased to be an executive Director on 20 January 2016. Mr. Fan notified the Board that he resigned as an executive Director of the Company due to the disposal of his shares in the Company and he is therefore no longer interested in the decision-making process at the Board level.

(5) Mr. Liu Wei Dong is deemed to be interested in 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015.

(6) Mr. Fan, Ren Da Anthony is deemed to be interested in 600,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015.

(7) Mr. Liu Tian Min is deemed to be interested in 600,000 Shares which may be issued to her upon the exercise of the share options granted to him on 15 May 2015.

(8) Ms. Li Ming Qi is deemed to be interested in 600,000 Shares which may be issued to her upon the exercise of the share options granted to her on 15 May 2015.

## Long Positions in the Shares and underlying Shares of the associated corporation:

### American Lighting

| Name | Capacity | Number of Ordinary Shares as at 31 December 2015 | Percentage of total issued share capital of American Lighting as at 31 December 2015 |
|---|---|---|---|
| Mr. Seah Han Leong[(1)] | Beneficial owner | 363 | 0.99% |
| Mr. Pan Jin[(2)] | Beneficial owner | 363 | 0.99% |

Notes:

(1) Mr. Seah Han Leong is deemed to be interested in 363 common stocks which may be issued to him upon the exercise of the share options granted to him under the Subsidiary Share Incentive Plan on 30 June 2015.

(2) Mr. Pan Jin is deemed to be interested in 363 common stocks which may be issued to him upon the exercise of the share options granted to him under the Subsidiary Share Incentive Plan on 30 June 2015.

Save as mentioned above, as at 31 December 2015, none of the Directors and the chief executives had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations which had been entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, so far as the Directors are aware, the following persons (other than the Directors and the executive officers) have interests or short positions in the Shares or underlying Shares which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

| Name | Capacity | Number of Ordinary Shares as at 31 December 2015 | Percentage of total issued share capital as at 31 December 2015 |
|---|---|---|---|
| THTF ES[(1)] | Beneficial owner | 1,000,692,690 | 51.60% |
| Resuccess[(1)(2)] | Interest of controlled corporation, beneficial owner | 1,003,630,690 | 51.75% |
| Tsinghua Tongfang[(1)(2)] | Interest of controlled corporation | 1,003,630,690 | 51.75% |
| Rightmass | Beneficial owner | 336,400,000 | 17.35% |
| Ms. Michelle Wong[(3)] | Beneficial owner, Interest of spouse, and Interest of controlled corporation | 364,866,000 | 18.81% |

Notes:

(1) Resuccess holds the entire issued share capital of THTF ES and Tsinghua Tongfang holds the entire issued share capital of Resuccess, therefore, each of Resuccess and Tsinghua Tongfang is deemed to be interested in all 1,000,692,690 Shares held by THTF ES.

(2) Resuccess directly holds 2,938,000 Shares in the Company. Tsinghua Tongfang holds the entire issued share capital of Resuccess, therefore, Tsinghua Tongfang is deemed to be interested in all Shares held by Resuccess.

(3) Ms. Michelle Wong is the spouse of Mr. Ben Fan and she is therefore deemed to be interested in all Shares held by him. Ms. Michelle Wong directly holds 10,668,000 Shares and holds 35% issued share capital of Charm Light International Limited and she therefore deemed to be interested in all 15,698,000 Shares held by Charm Light.

Save as mentioned above, as at 31 December 2015, the Company had not been notified of any interests and short positions in the Shares and underlying Shares of the Company which had been entered in the register required to be kept under Section 336 of the SFO.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group for the year ended 31 December 2015 are set out in note 34 to the financial statements.

# CONNECTED TRANSACTIONS

## Connected Transaction

### Equity Transfer Agreement

On 2 September 2015, Heshan Tongfang Lighting, which is wholly owned by the Company, entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with Tongfang Innovative to acquire all equity interest in Shenzhen Tongfang Bigdipper.

The consideration of the Equity Transfer Agreement is RMB10,036,500, with reference to the net assets of Shenzhen Tongfang Bigdipper as of 30 June 2015.

As at 31 December 2015, Tsinghua Tongfang is a controlling shareholder of the Company by virtue of its indirect 100% interest in THTF ES and its direct 100% interest in Resuccess, which in turn hold 51.75% of the total issued share capital of the Company. Therefore, Tsinghua Tongfang is a connected person of the Company and its wholly owned subsidiary, Tongfang Innovative is also a connected person of the Company. Accordingly, the transaction under the Equity Transfer Agreement constitutes a connected transaction.

As each of the applicable percentage ratios (other than the profits ratio) as calculated in accordance with Chapter 14 of the Listing Rules in respect of the Equity Transfer Agreement, is less than 5% and the consideration under the Equity Transfer Agreement is more than HK$3 million, therefore, the transaction contemplated under the Equity Transfer Agreement is subject to the reporting, announcement requirements but exempt from independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors consider that upon the completion of the equity transfer, Shenzhen Tongfang Bigdipper will act as an investment platform of the Company. The Group will implement its mergers and acquisitions through such platform. Therefore, the Directors (including the independent non-executive Directors) are of the view that the Equity Transfer Agreement has been entered into on normal commercial terms and the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## Continuing Connected Transactions

### Master Sales Agreement

On 13 February 2015, the Company entered into the master sales agreement (the "Master Sales Agreement") with Tsinghua Tongfang, pursuant to which the Company or its subsidiaries agreed to sell certain products to Tsinghua Tongfang, or its subsidiaries for a period commencing from 13 February 2015 to 31 December 2017.

Pursuant to the Master Sales Agreement, the Company agreed to supply and procure its subsidiaries to supply to the Tsinghua Tongfang Group epitaxial wafers, LED decorative lights, LED general lighting products, professional LED lighting products and lighting projects.

The price of the sales of products by the Company to Tsinghua Tongfang shall be generally determined based on arm's length negotiation, with reference to (1) the average selling price of the products of comparable nature and scale and accepted by an Independent Third Party in the twelve-month period prior to the relevant transaction, (2) where there is no such average selling price available, any most recent available sale price of products of comparable nature and scale offered by the Group and accepted by an Independent Third Party, the latest available market data, and (3) the prevailing market price for the sale of products of comparable nature and scale, which should be in any event no less favorable to the Group than is available to Independent Third Parties.

In particular, the prices of each type of the products under the Master Sales Agreement are set forth as below:

| Type of Products | Price |
|---|---|
| Epitaxial wafers | Considering that epitaxial wafers are semi-finished products and there might not be sufficient selling prices available for reference, the Group will usually refer to any most recent available sale price of products of comparable nature and scale offered by the Group and accepted by an Independent Third Party and the latest available market data |
| Finished products including LED decorative lights, LED general lighting products, professional LED lighting products, lighting projects | The average selling price of the products of comparable nature and scale and accepted by an Independent Third Party in the twelve-month period prior to the relevant transaction |

It was proposed that the annual caps under the Master Sales Agreement for each of the three financial years ending 31 December 2017 would be RMB148,467,500, RMB185,403,000, and RMB220,421,000.

For the year ended 31 December 2015, the aggregate transactions under the sales by the Group to Tsinghua Tongfang was approximately RMB27,411,000 million, which was within the cap of approximately RMB148,467,500 under the Master Sales Agreement.

As at 31 December 2015, Tsinghua Tongfang is a controlling shareholder of the Company by virtue of its indirect 100% interest in THTF ES and its direct 100% interest in Resuccess, which in turn hold 51.75% of the total issued share capital of the Company. Therefore, Tsinghua Tongfang is a connected person of the Company and the transactions under the Master Sales Agreement constitute continuing connected transactions.

As each of the applicable percentage ratios (other than the profits ratio) as calculated in accordance with Chapter 14 of the Listing Rules for the proposed cap amount in respect of the Master Sales Agreement, on an annual basis, exceeds 5%, and the annual cap for each of the three years ending 31 December 2017 is more than HK$10 million, therefore, the transactions contemplated under the Master Sales Agreement are subject to the reporting, announcement requirements and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors consider that Tsinghua Tongfang is a leader in the semiconductor and lighting markets in the PRC, with its shares listed on Shanghai Stock Exchange. The sales to Tsinghua Tongfang Group is expected to make positive contribution to the Group's operating revenue. Therefore, the Directors (including the independent non-executive Directors whose views will be set out in the circular to be sent to the Shareholders) are of the view that the Master Sales Agreement has been entered into in ordinary and usual course of business on normal commercial terms and the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Further details of the Master Sales Agreement are set out in the circular of the Company dated 4 March 2015.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Company;

(ii) either (a) on normal commercial terms or; (b) where there is no available comparable terms, on terms no less favorable to the Company than terms available to or from Independent Third Parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to report on the aforesaid continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. KPMG have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group.

The auditors of the Company have reported to the Directors that during the year:

(i) the above continuing connected transactions have been approved by the board of Directors;

(ii) the above continuing connected transactions are in accordance with the pricing policies of the Company;

(iii) the above continuing connected transactions have been entered into in accordance with the terms of the agreements governing such transactions; and

(iv) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

Save as disclosed above, no non-exempt connected transactions or continuing connected transactions subsisted or have been entered into by the Group for the year ended 31 December 2015.

## SHARE OPTION SCHEME

The 2006 Share Option Scheme was adopted by the Company pursuant to the Shareholders' resolutions passed on 20 November 2006 for the primary purpose of providing incentives to Directors and eligible employees. The 2006 Share Option Scheme became effective on 15 December 2006 and the options issued pursuant to the 2006 Share Option Scheme will expire no later than 10 years from the date of grant of the option. Under the 2006 Share Option Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company.

For any options granted to Directors, chief executives or substantial shareholders of the Company, options to be granted shall be approved by the independent non-executive Directors of the Company (excluding any independent non-executive Director who is the proposed grantee of options).

## DIRECTORS' REPORT

The maximum number of shares which may be issued upon the exercise of all the options to be granted under the 2006 Share Option Scheme was refreshed at the annual general meeting of the Company held on 10 August 2012. Subsequently, the number of options available for future grants is 94,244,069 shares, representing 10% of the issued share capital of the Company under the refreshed scheme mandate limit and representing 4.86% of the issued share capital of the Company as at the date of this annual report.

As at the date of this annual report, a total of 50,371,069 Shares (representing 2.6% of the issued share capital of the Company as at the date of this annual report) may be issued upon exercise of all options which may be granted under the 2006 Share Option Scheme and a total of 33,000,000 Shares (representing 1.7% of the issued share capital of the Company as at the date of this annual report) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2006 Share Option Scheme.

The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point in time, without prior approval from the Company's Shareholders.

The amount payable on acceptance of an option is HK$1.00. In relation to any options granted under the Scheme, the exercise price is determined by the Directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of the share options under the 2006 Share Option Scheme during the year ended 31 December 2015 are set forth as below.

| Category of participants | Date of grant | Exercise price per share (HK$) | Outstanding at 1 January 2015 | Granted during the year[1] | Exercise during the year | Forfeited/ Lapsed during the year | Outstanding at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr. Wang Liang Hai | 15 May 2015 | 1.31 | – | 1,500,000 | – | – | 1,500,000 |
| Mr. Seah Han Leong | 15 May 2015 | 1.31 | – | 1,500,000 | – | – | 1,500,000 |
| Mr. Pan Jin | 15 May 2015 | 1.31 | – | 1,500,000 | – | – | 1,500,000 |
| Mr. Lu Zhi Cheng[2] | 15 May 2015 | 1.31 | – | 3,000,000 | – | – | 3,000,000 |
| Mr. Ben Fan[3] | 15 May 2015 | 1.31 | – | 1,500,000 | – | – | 1,500,000 |
| Mr. Liu Wei Dong | 15 May 2015 | 1.31 | – | 1,000,000 | – | – | 1,000,000 |
| Mr. Fan, Ren Da Anthony | 15 May 2015 | 1.31 | – | 600,000 | – | – | 600,000 |
| Mr. Liu Tian Min | 15 May 2015 | 1.31 | – | 600,000 | – | – | 600,000 |
| Ms. Li Ming Qi | 15 May 2015 | 1.31 | – | 600,000 | – | – | 600,000 |
| **Employees** | 15 May 2015 | 1.31 | – | 21,200,000 | – | – | 21,200,000 |

Notes:

(1) Share options granted under the 2006 Share Option Scheme on 15 May 2015 vest in the relevant grantee in accordance with the timetable below with a 5-year exercise period. The closing price per Share on 14 May 2015 was HK$1.33, being the business day immediately prior to the date of grant.

| Vesting date | Percentage of options to vest | Vesting condition |
|---|---|---|
| 1 July 2016 | 50% of the total number of share options granted | The vesting of the share options shall be conditional upon the Company meeting its performance targets for the year of 2015 |
| 1 July 2017 | 50% of the total number of share options granted | The vesting of the share options shall be conditional upon the Company meeting its performance targets for the year of 2016 |

(2) Mr. Lu Zhi Cheng resigned as an executive Director on 9 October 2015.

(3) Mr. Ben Fan resigned as an executive Director on 20 January 2016.

Save as disclosed above, no share option was granted, exercised, lapsed, or cancelled during the year ended 31 December 2015.

Further details of the 2006 Share Option Scheme are set out in note 30 to the financial statements.

On 22 March 2016, the Board of the Company unanimously resolved to adopt the 2016 Share Option Scheme under Chapter 17 of the Listing Rules, subject to, amongst others, approvals by the Shareholders of the Company because the 2006 Share Option Scheme will expire on 20 November 2016 and the Board would like to enable the continuity of share option scheme of the Company to motivate the employees and the management of the Group. Upon the 2016 Share Option Scheme being unconditional and effective, the 2006 Share Option Scheme will be terminated.

A circular containing further details of the 2016 Share Option Scheme together with a notice of the general meeting will be dispatched to the Shareholders in due course.

## Subsidiary Share Incentive Plan

On 2 April 2015, the Company adopted the Subsidiary Share Incentive Plan by Shareholders' approval in order to advance the interests of current and future stockholders of American Lighting, by enhancing American Lighting's ability to attract, retain and motivate persons who make (or are expected to make) important contributions to American Lighting by providing such persons with equity ownership opportunities and thereby better aligning the interests of such persons with those of the Company's stockholders. The Subsidiary Share Incentive Plan is valid for ten years after its adoption. The eligible persons include the employees, consultants, and directors of American Lighting or any parent or subsidiary of American Lighting.

Subject to adjustment under the Subsidiary Share Incentive Plan, awards may be made under the Subsidiary Share Incentive Plan covering up to 3,632 shares of common stock (all of which may, but need not, be granted as incentive stock options, subject to any limitations under the Internal Revenue Code of 1986), which is equal to 10% of the issued and outstanding shares of Common Stock on the date when the Subsidiary Share Incentive Plan is adopted and approved by the Shareholders and as at the date of this annual report. If any award expires or lapses or is terminated, surrendered or cancelled without having been fully exercised or is forfeited in whole or in part (including as the result of shares of common stock subject to such award being repurchased by the Company at or below the original issuance price), in any case in a manner that results in any shares of common stock covered by such award not being issued or being so reacquired by the Company, the unused Common Stock covered by such award shall again be available for the grant of awards under the Subsidiary Share Incentive Plan.

The total number of shares of common stock issued and to be issued upon the exercise of options granted and to be granted to each Service Provider (as defined in the Subsidiary Share Incentive Plan) (including both exercised and outstanding options) in any period of twelve (12) consecutive months up to and including the date of grant shall not exceed 1% of shares of common stock in issue as at the date of grant. The Company may grant further options in excess of such limit set out in subject to approval by the Shareholders in general meeting in accordance with the Listing Rules, at which the Service Provider involved and its close associates (or the Service Provider's associates if the Service Provider is a connected person) shall be required to abstain from voting.

The Administrator (as defined in the Subsidiary Share Incentive Plan) shall establish the exercise price of each Option and specify the exercise price in the applicable award agreement. The exercise price shall be not less than 100% of the Option Exercise Price, which means, as of any date, the price per share of common stock payable on the exercise of the option and determined as follows: (i) if the common stock is listed on any established stock exchange (including but not limited to) a National Securities Exchange (within the meaning of the Exchange Act); the Option Exercise Price shall be the greater of (A) the closing sales price for such common stock as quoted on such exchange on the date of grant of the option, or if no sale occurred on such date, the first market trading day immediately prior to such date during which a sale occurred; and (B) the average closing sales price for such common stock as quoted on such exchange for the five business days preceding the date of grant of option, or if no sale occurred on such date, the first market trading day immediately prior to such date during which a sale occurred, as the prices contemplated by the preceding clauses (A) and (B) are reported in The Wall Street Journal or such other source as the board of American Lighting deems reliable; (ii) if the common stock is not listed on a stock exchange but is quoted on a national market system or other quotation system, the Option Exercise Price shall be the last sales price for such common stock on the date of grant of the option, or if no sales occurred on such date, then on the date immediately prior to such date on which sales prices are reported, as reported in The Wall Street Journal or such other source as the board of American Lighting deems reliable; or (iii) in the absence of an established market for the common stock, the Option Exercise Price shall be determined by the board of American Lighting in its sole discretion.

Notwithstanding anything to the contrary herein, in the event that an award of options is made (a) on or after the date that American Lighting has resolved to seek the listing, or (b) during the six month period immediately preceding the date on which American Lighting files an application for Listing, and the Listing occurs concurrent with the offer and sale of the common stock, then the Option Exercise Price shall be the higher of (a) the offering price for the shares of common stock to be issued in connection with the listing, and (b) the exercise price in the applicable award agreement.

Details of the share options under the Subsidiary Share Incentive Plan during the Period are set forth as below:

| Category of participants | Date of grant | Exercise price per share (US$) | Outstanding at 1 January 2015 | Granted during the year | Exercise during the year | Forfeited/ Lapsed during the year | Outstanding at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr. Seah Han Leong | 30 June 2015 | 330 | – | 363 | – | – | 363 |
| Mr. Pan Jin | 30 June 2015 | 330 | – | 363 | – | – | 363 |
| **Employees** | 30 June 2015 | 330 | – | 2,143 | – | – | 2,143 |

Note:

(1) The Stock Options granted have an exercisable term of 10 years and vest as follows: (i) thirty percent (30%) of the total number of shares subject to the Stock Options vest and become exercisable on the first (1st) anniversary of 30 June 2015 (the "Vesting Commencement Date"); (ii) an additional thirty percent (30%) of the total number of shares subject to the Stock Options vest and become exercisable on the second (2nd) anniversary of the Vesting Commencement Date; and (iii) the remaining unvested forty percent (40%) of the total number of shares subject to the Stock Options vest (and, as a result, the Stock Options become fully vested) on the third (3rd) anniversary of the Vesting Commencement Date; provided in each case that the Grantee continues to provide services to the Company, American Lighting or Tivoli, LLC ("Tivoli"), as the case may be, as of each such vesting date and that the board of directors of American Lighting has determined in its sole discretion that performance criteria, if any, that has been specified by the board of directors and agreed to by the Grantee, has been satisfied.

Save as disclosed above, no share option under the Subsidiary Share Incentive Plan was granted, exercised, lapsed, or cancelled during the year.

Further details of the Subsidiary Share Incentive Plan are set out in note 30 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2015.

## MANAGEMENT CONTRACTS

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

## CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2015.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS, CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest in, whether directly or indirectly, subsisted at the end of the financial year under review or at any time during the financial year save as disclosed under the sub-section headed "Connected Transaction" below and "Related Party Transactions" in note 34 to the financial statements.

## USE OF PROCEEDS

The Company did not undertake any equity fund raising in the past 12 months immediately prior to the date of this report.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2015, the largest supplier accounted for 5.0% of the Group's purchases and the five largest suppliers accounted for 17.9% of the Group's total purchases. The largest customer accounted for 3.8% of the Group's total revenue and the five largest customers accounted for 12.8% of the Group's total revenue.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has an interest in the Group's five largest suppliers and customers.

## CORPORATE GOVERNANCE

Details of corporate governance are set out in the section headed "Corporate Governance Report" on pages 31 to 41 of the annual report.

## COMPENSATION POLICY

The compensation package for each employee is structured in a way to attract and retain the best talents available, and will contain a combination or modification of some or all of the following four main components:

### I. Basic salary

Basic salary and wage rate ranges are established for each position by evaluating the responsibilities and the duties required to be performed. The actual salary or wage rate for the person filling the position is determined based on the experience and ability of the individual selected for the position.

The basic salary and wage rate ranges are reviewed periodically with reference to the prevailing market level and similar positions of competitors in the relevant industry. The actual salaries and wage rates of employees are reviewed annually and may be adjusted from time to time based on the cost of living and financial performance of the Company.

Salaries and wages are basic compensation and not intended to reward performance, either individually or corporately. Performance is rewarded through the other components of the compensation plan.

### II. Incentive bonus

Incentive bonus is linked to individual and corporate performance. Every year, profitability and other corporate performance targets are set and incentive bonuses will only be paid for that year if the targets are achieved.

The incentive bonus for each employee is determined with reference to his/her position and his/her individual performance during the year.

### III. 2006 Share Option Scheme and Subsidiary Share Incentive Plan

The Company adopted the 2006 Share Option Scheme and the Subsidiary Share Incentive Plan on 20 November 2006 and 2 April 2016, respectively. For further details, please refer to the paragraphs headed "Share Option Scheme" and "Subsidiary Share Incentive Plan" hereof.

### IV. Other benefits

In addition to the above three main components, the Group offers other customary and/or mandatory benefits to employees, such as retirement fund scheme, medical benefits, insurance and paid holiday, with reference to prevailing industry practices in the relevant jurisdictions.

## AUDITORS

KPMG will retire and, being eligible, offer themselves for reappointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2015.

## BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2015 are set out in note 26 to the financial statements.

## PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to LED lighting industry and some are from external sources. For further details, please refer to the section headed "Management, Discussion and Analysis".

## RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

For details of relationship with the employees, customers and suppliers, please refer to the paragraphs headed "compensation policy" and "major suppliers and customers" in this section.

## ENVIRONMENTAL POLICIES

The Group is specialized in providing energy saving and environmentally-friendly products. The Group strives to operate in compliance with the relevant environmental regulations and rules. During the year ended 31 December 2015 and up to the date of this report, the Group does not have any violation of relevant environmental regulations and rules which gives rise of significant impact to the Group's development, performance and businesses.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China, while the Company itself is listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China, including environment protection laws, standardization laws, product quality laws, product safety laws, regulations on administration of compulsive product certification and the laws in Hong Kong. During the year ended 31 December 2015 and up to the date of this report, the Group has complied with all the relevant laws and regulations in the mainland China and Hong Kong in all material aspects.

In addition, the Group retains outside counsels and would seek legal advice from them in case of any issues.

## PERMITTED INDEMNITY PROVISION

Article 167(1) of the Company's articles of association provides that the directors, secretary and other officers and every Auditor for the time being of the Company and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; PROVIDED THAT this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

## IMPORTANT EVENT AFTER THE PERIOD

On 20 January 2016, the Company was notified by THTF ES, a controlling shareholder and which is wholly owned by Tsinghua Tongfang that THTF ES has acquired an aggregate of 347,668,000 Shares of the Company at HK$1.18 per Share on 20 January 2016 ("**Increase in Shareholding**"). Immediately after the Increase in Shareholding, the shareholding of Tsinghua Tongfang in the Company, by virtue of its indirect 100% interest in THTF ES and its direct 100% interest in Resuccess, increased from approximately 51.75% to approximately 69.68%.

On behalf of the Board

**Fan Xin**
*Chairman*
22 March 2016

## CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders.

Throughout the year ended 31 December 2015, the Company complied with the code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules.

## BOARD OF DIRECTORS

The overall management of the Company's operation is vested in the Board.

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems, and monitoring of the performance of the senior management. The Directors have to make decisions objectively in the interests of the Company.

The Board exercises a number of authorities which include:

- Formulating the Group's long-term strategy;
- Approving major acquisitions, disposals and capital investment;
- Reviewing operational and financial performance;
- Approving financial results and public announcements;
- Reviewing the effectiveness of internal control;
- Authorizing material borrowings;
- Deciding dividend policy;
- Any issue or repurchase of the Company's securities under general mandate;
- Approving appointment to the Board and senior management;
- Deciding the Group's remuneration policy;

To assist in fulfilling its duties and responsibilities, the Board established four committees, namely the audit committee, the remuneration committee, the nomination committee and risk management and regulatory compliance committee (previously known as "regulatory compliance committee").

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

## Board Composition

The Board currently comprises eight Directors, consisting of four executive Directors, Mr. Fan Xin (the chairman of the Board), Mr. Wang Liang Hai, Mr. Seah Han Leong and Mr. Pan Jin, one non-executive Director, Mr. Liu Wei Dong and three independent non-executive Directors, Mr. Fan Ren Da Anthony, Mr. Liu Tian Min and Ms. Li Ming Qi. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors. The Company has appointed three independent non-executive Directors representing more than one-third of the Board and is in compliance with Rule 3.10A of the Listing Rules.

## Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision, in particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Ms. Li Ming Qi, one of the independent non-executive Directors, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

## Board Diversity Policy

Pursuant to the code provisions of the Corporate Governance Code relating to board diversity which has come into effect since 1 September 2013, the Board approved a new board diversity policy (the "Board Diversity Policy") on 1 April 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

## Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2015.

## Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company.

The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the Corporate Governance Code on continuous professional development for the year ended 31 December 2015:

| | Corporate Governance/Updates on Laws, Rules and Regulations | | Accounting/Financial/Management or Other Professional Skills | |
|---|---|---|---|---|
| **Name of Director** | **Read materials** | **Attend Seminars/ Briefings** | **Read materials** | **Attend Seminars/ Briefings** |
| **Executive Directors** | | | | |
| Mr. Fan Xin | ✓ | ✓ | ✓ | ✓ |
| Mr. Wang Liang Hai | ✓ | ✓ | ✓ | ✓ |
| Mr. Seah Han Leong | ✓ | ✓ | ✓ | ✓ |
| Mr. Pan Jin | ✓ | ✓ | ✓ | ✓ |
| Mr. Lu Zhi Cheng (resigned on 9 October 2015) | ✓ | ✓ | ✓ | ✓ |
| Mr. Ben Fan (resigned on 20 January 2016) | ✓ | ✓ | ✓ | ✓ |
| **Non-executive Director** | | | | |
| Mr. Liu Wei Dong | ✓ | ✓ | ✓ | ✓ |
| **Independent non-executive Directors** | | | | |
| Mr. Fan Ren Da Anthony | ✓ | ✓ | ✓ | ✓ |
| Mr. Liu Tian Min | ✓ | ✓ | ✓ | ✓ |
| Ms. Li Ming Qi | ✓ | ✓ | ✓ | ✓ |

## Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

## Meetings

All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties.

The Board meets regularly throughout the year ended 31 December 2015 to review the overall strategy and to monitor the operation as well as the financial performance of the Group. The Chairman focuses on Group strategy and is responsible for chairing and managing the efficient operation of the Board and ensuring that all key issues are considered by the Board in a timely manner. Notice of at least 14 days has been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda whenever they consider appropriate and necessary. Agenda and accompanying Board papers in respect of regular Board meetings are dispatched in full to all Directors within a reasonable time before the meeting. Directors have to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting as appropriate. Draft minutes of all board meetings are circulated to Directors for comment within a reasonable time prior to confirmation. Minutes of board meetings and meetings of board committees are kept by the company secretary. All Directors have free access to board papers and related materials, and are provided with adequate information in a timely manner, enabling the Board to make informed decision on matters placed before it.

The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2015 is set out below:

| Name of Director | Attendance/Number of Board Meeting(s) | Attendance/Number of General Meeting(s) |
|---|---|---|
| **Executive Directors** | | |
| Mr. Fan Xin *(chairman)*[(1)] | 4/8 | 0/3 |
| Mr. Wang Liang Hai | 8/8 | 2/3 |
| Mr. Seah Han Leong | 8/8 | 3/3 |
| Mr. Pan Jin | 8/8 | 3/3 |
| Mr. Lu Zhi Cheng[(1)] | 4/8 | 1/3 |
| Mr. Ben Fan[(2)] | 4/8 | 1/3 |
| **Non-executive Director** | | |
| Mr. Liu Wei Dong | 8/8 | 0/3 |
| **Independent non-executive Directors** | | |
| Mr. Fan Ren Da Anthony | 8/8 | 2/3 |
| Mr. Liu Tian Min | 8/8 | 1/3 |
| Ms. Li Ming Qi | 8/8 | 3/3 |

Notes:

(1) Mr. Lu Zhi Cheng resigned as an executive Director and chairman of the Board on 9 October 2015 and Mr. Fan Xin was appointed as an executive Director and chairman of the Board on the same date.

(2) Mr. Ben Fan resigned as an executive Director on 20 January 2016.

## Appointments, Re-election and Removal of Directors

Each of the executive Directors of the Company has entered into a service contract with the Company for a specific term of three years commencing from 25 August 2014 (except that Mr. Fan Xin has entered into a service contract with the Company on 9 October 2015) and will automatically continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

The non-executive Director of the Company has entered into a service contract with the Company for a specific term of three years commencing from 25 August 2014 and will continue thereafter until terminated by not less than two months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of the independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term of three years commencing from 25 August 2014 and will thereafter until terminated by not less than two months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

During the year ended 31 December 2015, none of the Directors have waived their emoluments in relation to their services respectively.

The above service contracts are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for reelection.

According to Article 87(1) of the Articles of Association, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company. According to Article 87(2), the retiring Director shall be eligible for re-election.

In addition, according to Article 86(3), any Director appointed by the Board either to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

In accordance with Article 87(1) of the Articles of Association, Mr. Seah Han Leong, Mr. Pan Jin, Mr. Liu Tian Min shall retire by rotation at the AGM and, being eligible, will offer himself for re-election at the AGM.

In accordance with Article 86(3), Mr. Fan Xin will retire at the AGM and, being eligible, will offer himself for re-elections at the AGM.

## Board Committees

The Board has established (i) audit committee; (ii) remuneration committee; (iii) nomination committee and (iv) risk management and regulatory compliance committee (previously known as "regulatory compliance committee"), with defined terms of reference. The terms of reference of the board committees which explain their respective role and the authority delegated to them by the Board are available on the website of the Company at http://www.neo-neon.com and the website of the Stock Exchange at www.hkexnews.hk. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

## Audit Committee

The Company established an audit committee with written terms of reference. The audit committee currently comprises of three members, being all independent non-executive Directors, Mr. Fan Ren Da Anthony, Mr. Liu Tian Min and Ms. Li Ming Qi. Ms. Li Ming Qi is the chairman of the audit committee. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control and risk management systems of the Company. Their composition and written terms of reference are in line with the Corporate Governance Code.

The Group's unaudited interim results for the six months ended 30 June 2015 and the audited annual results for the year ended 31 December 2015, respectively have been reviewed by the audit committee, which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the internal control systems of the Group during the year ended 31 December 2015.

On 4 December 2015, the Board adopted the updated terms of reference of the audit committee so that the audit committee shall also oversee the risk management system of the Group starting from 1 January 2016.

During the year ended 31 December 2015, two meetings were held by the audit committee. The individual record of each member of the audit committee at the meetings of the audit committee is set out below:

| Name of Director | Attendance/Number of Committee Meeting(s) |
|---|---|
| Ms. Li Ming Qi | 2/2 |
| Mr. Fan Ren Da Anthony | 2/2 |
| Mr. Liu Tian Min | 2/2 |

## Remuneration Committee

The Company established a remuneration committee on with written terms of reference. The remuneration committee comprises of four members, namely, Mr. Fan Xin, an executive Director, and three independent non-executive Directors, Mr. Fan Ren Da Anthony, Mr. Liu Tian Min and Ms. Li Ming Qi. Mr. Liu Tian Min is the chairman of the remuneration committee. The primary duties of the remuneration committee are to advise the Board on the Group's overall policy and structure for the remuneration of Directors and senior management, and ensures that no Director or any of his associate is involved in deciding his/her own remuneration. Their composition and written terms of reference are in line with the Corporate Governance Code.

During the year ended 31 December 2015, the remuneration committee reviewed the remuneration packages of the Directors and the senior management.

During the year ended 31 December 2015, four meetings were held by the remuneration committee. The individual record of each member of the remuneration committee at the meeting of the remuneration committee is set out below:

| Name of Director | Attendance/Number of Committee Meeting(s) |
|---|---|
| Mr. Liu Tian Min | 4/4 |
| Mr. Fan Xin(1) | 2/4 |
| Mr. Fan Ren Da Anthony | 4/4 |
| Ms. Li Ming Qi | 4/4 |
| Mr. Lu Zhi Cheng(1) | 2/4 |

Note:

(1) Mr. Lu Zhi Cheng resigned as a member of the remuneration committee on 9 October 2015 and Mr. Fan Xin was appointed as a member of the remuneration committee on the same date.

## Nomination Committee

The Company established a nomination committee on with written terms of reference. The nomination committee currently comprises of four members, namely, Mr. Fan Xin, an executive Director and three independent non-executive Directors, Mr. Fan Ren Da Anthony, Mr. Liu Tian Min and Ms. Li Ming Qi. Mr. Fan Xin is the chairman of the nomination committee. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships. Their composition and written terms of reference are in line with the Corporate Governance Code.

The nomination committee reviewed the structure, size and composition of the Board, during the year ended 31 December 2015.

During the year ended 31 December 2015, two meetings were held by the nomination committee. The individual record of each member of the nomination committee at the meeting of the nomination committee is set out below:

| Name of Director | Attendance/Number of Committee Meeting(s) |
|---|---|
| Mr. Fan Xin[(1)] | 1/2 |
| Mr. Fan Ren Da Anthony | 2/2 |
| Mr. Liu Tian Min | 2/2 |
| Ms. Li Ming Qi | 2/2 |
| Mr. Lu Zhi Cheng[(1)] | 1/2 |

Note:

(1) Mr. Lu Zhi Cheng resigned as a member and the chairman of the nomination committee on 9 October 2015 and Mr. Fan Xin was appointed as a member and the chairman of the nomination committee on the same date.

## Risk Management and Regulatory Compliance Committee

The Company established a risk management and regulatory compliance committee (previously known as "regulatory compliance committee") on with written terms of reference. The regulatory compliance committee currently comprises of eight members, being all Directors of the Company with Mr. Fan Ren Da Anthony acting as the chairman of the risk management and regulatory compliance committee. The primary duties of the risk management and regulatory compliance committee are to monitor the risk management system of the Company and compliance of the Company's existing or future business, and review and make recommendations on the compliance of applicable laws and regulations, including matters relating to the Listing Rules.

During the year ended 31 December 2015, the risk management and regulatory compliance committee regularly reported to the Board on any alleged frauds and non-compliances, internal control deficiencies or alleged violation of laws, regulations and rules. The risk management and regulatory compliance committee is authorised by the Board to seek relevant information from the management of the Company to achieve its objectives, duties and responsibilities, and all employees must cooperate to meet its needs.

During the year ended 31 December 2015, no meeting was held by the risk management and regulatory compliance committee.

### Corporate Governance function

The Company's corporate governance function is carried out by the Board. The duties of the corporate governance committee include: (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (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 of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

During the year ended 31 December 2015, the Board reviewed the compliance with the code provisions and the recommended best practices under the Corporate Governance Code and give considered reasons for any deviation.

### Company Secretary

The secretary of the Company is Mr. Leung Lok Wai, who was appointed on 2 March 2016. Mr. Leung has been informed of the requirement of the Rule 3.29 of the Listing Rules. Mr. Leung has informed the Company that he took more than 15 hours of training covering corporate governance and accounting matters. The Company considers that the training of the company secretary is in compliance with the requirements under Rule 3.29 of the Listing Rules.

## FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that year. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of KPMG, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

### Auditor's Remuneration

The audit committee of the Board is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorized external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company engages KPMG as its external auditors. Details of the fees paid/payable to KPMG for the year ended 31 December 2015 are as follows.

| | RMB'000 |
|---|---|
| Audit services | 2,362 |
| Non-audit services | 176 |
| | 2,538 |

Note: The non-audit services mainly covered review service.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for maintaining an adequate system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of Shareholders and the Company's assets.

The Group's internal control system is designed in consideration of the nature of business as well as the organization structure. The system is designed to manage rather than eliminate the risk of failure in operational systems and to provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed further to safeguard the Group's assets, maintain appropriate accounting records and financial reporting, maintain efficiency of operations and ensure compliance with applicable laws and regulations.

The Board and management held its half-year and annual review of internal controls as required under C.2.1 of the Corporate Governance Code. The audit committee meetings provided an opportunity for direct communication between audit committee members and the Company's management and internal audit manager. The Company regarded the annual audit committee meeting as an important event in which the Chairman and all members of audit committee would make an effort to attend. External auditors were also invited to attend the Company's audit committee meetings and were also available to assist the Directors in addressing queries from external auditors relating to the conduct of the audit and the preparation and content of their auditor report.

The Directors have reviewed the need for an internal audit function and are of the view that it would be more cost effective to recruit professionals to perform internal audit functions for the Group. Currently an in-house internal audit function was set up within the Group to review its system of internal controls annually.

On 4 December 2015, the Board adopted the updated terms of reference of the audit committee so that the audit committee shall also oversee the risk management systems of the Group starting from 1 January 2016.

## INVESTOR AND SHAREHOLDER RELATIONS

The Company endeavors to continue maintaining a high level of transparency in communicating with Shareholders and the investment community at large. Briefings and meetings with institutional investors and analysts are conducted regularly. The Company is committed to maintain an open and effective investor communication policy and to update investors on relevant information on its business on a timely manner, subject to relevant regulatory requirements.

In order to ensure effective, clear and accurate communications with the investors and analysts, all corporate communications are arranged and handled by the chief financial officer of the Company.

Financial information and all shareholder corporate communications of the Company are made available on the Company's website at http://www.neo-neon.com and updated regularly on a timely basis.

The Board and management shall ensure Shareholders' right and all Shareholders are treated equitably and fairly.

The Company has announced its half-year and annual results in a timely manner, which is well before the time limits set out in the Listing Rules. Separate resolutions will be proposed at the general meetings on each substantially separate issue, including the re-election of individual Directors.

The annual general meeting will provide an opportunity for direct communication between the Board and the Company's Shareholders. The Company regards the annual general meeting as an important event in which the chairman and all Directors will make an effort to attend. External auditors shall also be invited to attend the Company's annual general meeting and are also available to assist the Directors in addressing queries from Shareholders relating to the conduct of the audit and the preparation and content of their auditor report. All Shareholders are given prior notice on timely basis together with a detailed agenda. The Board, according to the Listing Rules, will conduct voting at the forthcoming AGM by poll. The results of the Company will be declared at the meeting, and announced timely on the Stock Exchange's website and the Company's website.

## SHAREHOLDERS' RIGHTS

### Procedures for shareholders to convene an extraordinary general meeting and putting forward proposals at shareholders' meeting

Shareholder(s) holding at the date of 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 (the "Requisition") to the Board or the company secretary to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in the Requisition. The Requisition shall be deposited at the principal place of business in Hong Kong (Unit 806-810, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong). The extraordinary general meeting shall be held within two (2) months after the deposit of the Requisition. If within twenty-one (21) days of deposit of the Requisition, the Board fails to proceed to convene the extraordinary general meeting, 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 the requisitionist(s) by the Company.

### Procedures by which enquiries may be put to the Board

Shareholders may put forward enquiries to the Board through Mr. Leung Lok Wai or Mr. Seah Han Leong who will direct the enquiries to the Board for handling. The contact details are as follows:

| | |
|---|---|
| Address: | Unit 806-810, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong |
| Email: | investors@neo-neon.com |
| Tel No.: | (852) 3565 5980 |
| Fax No.: | (852) 2786 2479 |

## FAMILY MEMBERS AND CLOSE PERSONAL RELATIONSHIPS

The Board recognises that talents, relevant experience and skills are the most important considerations in executive officers and staff selection. It is the Group's policy that job positions are filled by suitably qualified candidates selected through internal promotions or from the open market on the merits of qualification, experience, skills and achievements. No employee is hired on account of family or close personal connection to any Board member.

## CONSTITUTIONAL DOCUMENTS

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2015.

# INDEPENDENT AUDITOR'S REPORT

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF NEO-NEON HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Neo-Neon Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 44 to 120, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2016

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015
(Expressed in Renminbi ("RMB"))

| | Note | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|---|
| **Revenue** | 6 | 602,438 | 558,173 |
| Cost of goods sold | | (435,150) | (509,765) |
| **Gross profit** | | 167,288 | 48,408 |
| Other income | | 10,262 | 7,457 |
| Other gains and losses | 7(a) | 63,603 | 3,444 |
| Other expenses | 7(b) | (4,751) | (18,511) |
| Impairment losses recognised in respect of property, plant and equipment | 8 | – | (32,737) |
| Distribution and selling expenses | | (88,527) | (68,554) |
| Administrative expenses | | (135,607) | (124,864) |
| Finance costs | 9 | (2,693) | (4,174) |
| Share of losses of associates and a jointly controlled entity | | (99) | (6,409) |
| **Profit/(loss) before taxation** | 10 | 9,476 | (195,940) |
| Income tax | 12 | (4,991) | (4,186) |
| **Profit/(loss) for the year** | | 4,485 | (200,126) |
| Other comprehensive income for the year | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – exchange differences arising on translation of financial statements of overseas subsidiaries, net of nil tax | | 19,373 | (5,406) |
| **Total comprehensive income for the year** | | 23,858 | (205,532) |
| Profit/(loss) for the year attributable to | | | |
| – owners of the Company | | 5,817 | (196,048) |
| – non-controlling interests | | (1,332) | (4,078) |
| | | 4,485 | (200,126) |
| Total comprehensive income for the year attributable to | | | |
| – owners of the Company | | 25,021 | (201,826) |
| – non-controlling interests | | (1,163) | (3,706) |
| | | 23,858 | (205,532) |
| | | RMB cents | RMB cents |
| **Earnings/(loss) per share** | 13 | | |
| – Basic and diluted | | 0.30 | (13.11) |

The notes on pages 50 to 120 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015
(Expressed in RMB)

| | Note | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 14 | 14,700 | 15,300 |
| Property, plant and equipment | 15 | 231,803 | 244,143 |
| Prepaid lease payments | 16 | 38,097 | 58,049 |
| Goodwill | 17 | 8,109 | 7,661 |
| Intangible assets | 18 | 23,853 | 16,292 |
| Interests in associates | 19 | 1,345 | 1,444 |
| Available-for-sale investments | 20 | 2,308 | 3,126 |
| Financial asset at fair value through profit or loss | 21 | 105,380 | 105,500 |
| Deposits made on acquisition of property, plant and equipment | | 1,341 | 4,380 |
| | | 426,936 | 455,895 |
| **Current assets** | | | |
| Inventories | 22 | 189,174 | 170,024 |
| Trade and other receivables | 23 | 210,922 | 218,500 |
| Tax recoverable | 12 | 11,943 | 4,159 |
| Pledged bank deposits | 24 | 20,353 | 1,167 |
| Cash and cash equivalents | 24 | 615,663 | 674,806 |
| | | 1,048,055 | 1,068,656 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | 194,373 | 250,179 |
| Taxation payable | | 4,094 | 4,827 |
| Bank borrowings repayable within one year | 26 | 95,129 | 112,783 |
| | | 293,596 | 367,789 |
| **Net current assets** | | 754,459 | 700,867 |
| **Total assets less current liabilities** | | 1,181,395 | 1,156,762 |

The notes on pages 50 to 120 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015
(Expressed in RMB)

| | Note | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Government grants | 27 | 13,914 | 15,811 |
| Deferred taxation | 28 | 3,997 | 4,194 |
| | | 17,911 | 20,005 |
| **Net assets** | | 1,163,484 | 1,136,757 |
| **Capital and reserves** | | | |
| Share capital | 29 | 171,897 | 171,897 |
| Reserves | | 990,713 | 962,021 |
| Equity attributable to owners of the Company | | 1,162,610 | 1,133,918 |
| Non-controlling interests | | 874 | 2,839 |
| Total equity | | 1,163,484 | 1,136,757 |

Approved and authorised for issue by the board of directors on 22 March 2016.

**Fan Xin**
Director

**Seah Han Leong**
Director

The notes on pages 50 to 120 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015
(Expressed in RMB)

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve (Note (i)) | Special reserve (Note (ii)) | Share compensation reserve (Note (iii)) | Share options reserve | Translation reserve | Other reserve (Note (iv)) | Accumulated losses | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 April 2014 | 92,317 | 1,628,288 | 255 | 55,238 | 50,024 | 67,793 | (272,192) | (7,699) | (995,088) | 618,936 | 6,234 | 625,170 |
| Loss for the nine months ended 31 December 2014 | – | – | – | – | – | – | – | – | (196,048) | (196,048) | (4,078) | (200,126) |
| Other comprehensive income | – | – | – | – | – | – | (5,778) | – | – | (5,778) | 372 | (5,406) |
| Total comprehensive income | – | – | – | – | – | – | (5,778) | – | (196,048) | (201,826) | (3,706) | (205,532) |
| Issuance of new shares (note 29) | 79,580 | 636,640 | – | – | – | – | – | – | – | 716,220 | – | 716,220 |
| Acquisition of non-controlling interest in a subsidiary | – | – | – | – | – | – | 19 | (521) | – | (502) | 311 | (191) |
| Recognition of equity-settled share based payments | – | – | – | – | – | 1,090 | – | – | – | 1,090 | – | 1,090 |
| Share option lapsed (note 30) | – | – | – | – | – | (68,883) | – | – | 68,883 | – | – | – |
| | 79,580 | 636,640 | – | – | – | (67,793) | 19 | (521) | 68,883 | 716,808 | 311 | 717,119 |
| At 31 December 2014 | 171,897 | 2,264,928 | 255 | 55,238 | 50,024 | – | (277,951) | (8,220) | (1,122,253) | 1,133,918 | 2,839 | 1,136,757 |
| At 1 January 2015 | 171,897 | 2,264,928 | 255 | 55,238 | 50,024 | – | (277,951) | (8,220) | (1,122,253) | 1,133,918 | 2,839 | 1,136,757 |
| Profit for the year | – | – | – | – | – | – | – | – | 5,817 | 5,817 | (1,332) | 4,485 |
| Other comprehensive income | – | – | – | – | – | – | 19,204 | – | – | 19,204 | 169 | 19,373 |
| Total comprehensive income | – | – | – | – | – | – | 19,204 | – | 5,817 | 25,021 | (1,163) | 23,858 |
| Disposal of a subsidiary | – | – | – | – | – | – | – | – | – | – | (802) | (802) |
| Recognition of equity-settled share based payments | – | – | – | – | – | 3,671 | – | – | – | 3,671 | – | 3,671 |
| | – | – | – | – | – | 3,671 | – | – | – | 3,671 | (802) | 2,869 |
| At 31 December 2015 | 171,897 | 2,264,928 | 255 | 55,238 | 50,024 | 3,671 | (258,747) | (8,220) | (1,116,436) | 1,162,610 | 874 | 1,163,484 |

Notes:

(i) Capital redemption reserve represents the amount by which the issued share capital of the Company is diminished through the repurchase of shares.

(ii) The special reserve represents the differences between the nominal amount of the shares issued by the Company and the Group's former holding company, THTF Lighting Group Limited ("THTF Lighting"), and the aggregate amount of share capital and share premium of the subsidiaries acquired pursuant to a corporate reorganisation in 1996 and a group reorganisation in preparation for the listing of the Company's shares in 2006.

(iii) Share compensation reserve represents the difference of fair value of certain THTF Lighting's shares (the "Shares") transferred to the Group's certain senior management by the Company's shareholders and the consideration paid by the senior management in obtaining the Shares in 2004.

(iv) Other reserve represents the difference between the consideration paid for acquiring additional interests in subsidiaries of the Company and the amount of interests acquired.

The notes on pages 50 to 120 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015
(Expressed in RMB)

| | Note | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) before taxation | | 9,476 | (195,940) |
| Adjustments for: | | | |
| Interest income | 10 | (3,434) | (2,019) |
| Finance costs | 9 | 2,693 | 4,174 |
| Share of losses of associates | | 99 | – |
| Share of loss of a jointly controlled entity | | – | 6,409 |
| Gain on disposal of a subsidiary | | (1,797) | – |
| Gain on disposal of available-for-sale investments | | (182) | – |
| Depreciation and amortisation | | 34,229 | 29,366 |
| Change in fair value of investment properties | 14 | 1,795 | (253) |
| Change in fair value of financial asset at fair value through profit or loss | 21 | 120 | – |
| Gain on disposal of property, plant and equipment and prepaid lease payments | 7(a) | (27,436) | (52,751) |
| Impairment losses in respect of long-lived assets | 8 | – | 32,737 |
| Amortisation of government grants | 27 | (4,147) | (58) |
| Net allowance for inventories | 22 | 3,705 | 37,945 |
| Net (reversal of allowance for)/allowance for bad and doubtful debts | 23 | (13,934) | 47,513 |
| Equity-settled share based payments | | 3,671 | 1,090 |
| Net exchange gain | 7(a) | (22,771) | (1,519) |
| Operating cash flows before movements in working capital | | (17,913) | (93,306) |
| (Increase)/decrease in inventories | | (22,855) | 76,696 |
| Increase in tax recoverable | | (7,784) | (13) |
| Decrease/(increase) in trade and other receivables | | 17,116 | (39,744) |
| (Decrease)/increase in trade and other payables | 25 | (9,577) | 910 |
| Cash receipt of government grants | 27 | 2,250 | – |
| Cash used in operations | | (38,763) | (55,457) |
| Income tax paid | | (5,921) | (601) |
| **Net cash used in operating activities** | | (44,684) | (56,058) |

The notes on pages 50 to 120 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015
(Expressed in RMB)

| | Note | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Interest received | 10 | 3,434 | 2,019 |
| Placement of pledged bank deposits | | (20,353) | (977) |
| Release of pledged bank deposits | | 1,167 | 34,841 |
| Purchase of property, plant and equipment | | (19,477) | (12,318) |
| Proceeds from disposal of property, plant and equipment and prepaid lease payments | 25 | 18,935 | 61,024 |
| Additions of intangible assets | | (9,029) | – |
| Acquisition of a subsidiary, net of cash and cash equivalents acquired | | – | (16,349) |
| Cash received from loan receivable | | – | 34,901 |
| Payment for financial asset at fair value through profit or loss | | – | (105,500) |
| Disposal of a subsidiary | | (119) | – |
| **Net cash used in investing activities** | | (25,442) | (2,359) |
| **Financing activities** | | | |
| Proceeds from new bank loans | | 27,193 | 72,486 |
| Repayment of bank loans | | (49,382) | (137,775) |
| Interest paid | 9 | (2,693) | (4,174) |
| Acquisition of non-controlling interests of a subsidiary | | – | (210) |
| Proceeds from issuance of shares | | – | 716,220 |
| **Net cash (used in)/generated from financing activities** | | (24,882) | 646,547 |
| **Net (decrease)/increase in cash and cash equivalents** | | (95,008) | 588,130 |
| **Cash and cash equivalents at the beginning of the year** | | 674,806 | 89,434 |
| **Effect of foreign exchange rate changes** | | 35,865 | (2,758) |
| **Cash and cash equivalents at the end of the year** | | 615,663 | 674,806 |

The notes on pages 50 to 120 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 1 GENERAL

Neo-Neon Holdings Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 36. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and certain of its shares are listed as Depositary Receipts in Taiwan Stock Exchange.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

On 19 March 2014, a subscription agreement was entered into between the Company and Tsinghua Tongfang Co., Ltd. ("Tsinghua Tongfang") via THTF Energy-Saving Holdings Limited ("THTF ES") (an indirectly wholly-owned subsidiary of Tsinghua Tongfang), in relation to the subscription (the "Subscription") of 1,000,000,000 shares (representing approximately 106.46% of the then issued share capital of the Company) at the subscription price of Hong Kong Dollar ("HK$") 0.90 per share by THTF ES. The completion of the Subscription pursuant to the subscription agreement took place on 1 August 2014 and the consideration for the Subscription in the sum of HK$900,000,000 has been fully paid by THTF ES to the Company on 1 August 2014. Upon completion, THTF ES has subscribed for an aggregate of approximately 51.56% of the issued share capital of the Company.

By a special resolution passed at the Extraordinary General Meeting held on 5 January 2015, the Chinese name of the Company is changed from "真明麗控股有限公司" to "同方友友控股有限公司". The English name "Neo-Neon Holdings Limited" remains unchanged. The change of company name will not affect any of the right of the shareholders.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (collectively the "Group") is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (b) Basis of preparation of the financial statements

The financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and Group's interest in associates and a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment property (see note 2(k)); and

– financial instruments classified as available-for-sale or as financial asset at fair value through profit or loss (see note 2(s)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

## (c) Change in financial year end date

Pursuant to the announcement dated 19 November 2014, the Company changed its financial year end date from 31 March to 31 December. The change of the Company's financial year end date is to unify the financial year end date of the Company and its ultimate holding company, Tsinghua Tongfang, which is established in the People's Republic of China ("PRC"). Accordingly, the comparative figures (which cover a period of nine months from 1 April 2014 to 31 December 2014) for the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes are therefore not entirely comparable with those of the year ended 31 December 2015.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (d) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

– Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*

– *Annual Improvements to HKFRSs 2010-2012 Cycle*

– *Annual Improvements to HKFRSs 2011-2013 Cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

### Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contributions

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the Group does not operate defined benefit plans.

### Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

## (e) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, being the change in proportionate share of the net book value of subsidiaries and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (e) Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

## (f) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

– deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

– assets (or disposal groups) that are classified as held for sale are measured in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations".

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (f) Business combinations *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

## (g) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (h) Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a jointly controlled entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (i) Joint ventures

### Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (j) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income from investment properties let under operating leases is recognised on a straight line basis over the period of the respective leases.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Investment properties

Investment properties are properties held to earn rentals and for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

### (l) Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods, or for administrative purposes, other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any identified impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is stated at cost which includes all development expenditure and other direct costs, attributable to such projects, less any recognised impairment loss.

They are not depreciated until completion of construction and the asset is ready for intended use. Cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Buildings are depreciated over their estimated useful lives or lease terms of the relevant leasehold land on a straight line basis, whichever is shorter.

For the leasehold land and buildings in Hong Kong, the cost of leasehold land and buildings is depreciated over their estimated useful lives of 50 years. The cost of buildings in the PRC is depreciated over 20 years.

Depreciation is recognised so as to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the statement of financial position and is amortised over the lease term on a straight line basis except for investment properties under the fair value model.

### (n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (o) Intangible assets

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Intangible assets *(Continued)*

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

#### Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### (q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### (r) Onerous contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. When the Group has a contract that is onerous, the unavoidable costs under the contract is recognised and measured as a provision.

### (s) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (s) Financial instruments *(Continued)*

### Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivable, pledged bank deposits and cash and cash equivalents) are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVTPL") represent financial assets held-for-trading. A financial asset is classified as held-for-trading if:

– it has been acquired principally for the purpose of selling in the near future; or

– it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

Investments held-for-trading are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

### Impairment of financial assets

Financial assets, other than investments held-for-trading, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (s) Financial instruments *(Continued)*

### Impairment of financial assets *(Continued)*

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For available-for-sale financial asset carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

The carrying amount of the loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

### Financial liabilities and equity instruments

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (s) Financial instruments *(Continued)*

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

### Financial liabilities

Financial liabilities, including trade and other payables, and bank loans, are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (t) Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. The impairment loss shall be allocated to reduce carrying amount of the assets comprising the CGU firstly to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets within the CGU pro rata on the basis of the carrying amount of each asset in the CGU. When allocating an impairment loss to individual assets within a cash-generating unit, the carrying amount of an individual asset should not be reduced below the highest of its fair value less cost of disposal (if measureable), its value in use (if determinable), and zero. If this results in an amount being allocated to an asset which is less than its pro rata share of the impairment loss, the excess is allocated to the remaining assets within the cash-generating unit on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or a cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately.

## (u) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from “loss before taxation” as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (u) Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable loss. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (v) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

## (w) Share-based payment transactions

### Share options granted to employees, directors and non-executive directors

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to the accumulated losses.

## (x) Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in RMB, which is the presentation currency for the consolidated financial statements. The functional currency of the Company is HK$.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (x) Foreign currencies *(Continued)*

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's operations are expressed in RMB using exchange rates prevailing at the end of the reporting period.

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

### (y) Leasing

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

#### The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

### (z) Retirement benefits costs

Payments to defined contribution retirement benefits plan are recognised as an expense when employees have rendered services entitling them to the contributions.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (aa) 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 Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(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 employees of either 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 the key management personnel of the entity (or of a parent of the entity).

(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.

### (bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the directors of the Company 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 may 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.

## Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

### Estimated impairment of property, plant and equipment

When there is indication that property, plant and equipment may be impaired, the Group estimates the recoverable amount of the relevant asset or the cash-generating unit ("CGU") to which the asset belongs. The amount of the impairment loss is measured as the difference between the asset's carrying amount and its recoverable amount. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU in which the relevant property, plant and equipment are attached to. The recoverable amount is higher of value in use and fair value less costs to sell. Value in use ("VIU") is the estimated future cash flows discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Where there are changes in facts and circumstances which result in revisions of the estimated future cash flows for the purpose of determining the VIU, further impairment loss or reversal of impairment loss may arise. As at 31 December 2015, the carrying amount of property, plant and equipment is RMB231,803,000 net of accumulated depreciation and impairment of RMB1,756,562,000 (2014: RMB244,143,000 net of accumulated depreciation and impairment of RMB1,750,678,000).

### Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the recoverable amount of the relevant CGU to which intangible assets have been allocated. The recoverable amount is higher of value in use and fair value less costs to sell. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where there are unfavourable changes in facts and circumstances which result in revisions of the estimated future cash flows for the purpose of determining the value in use, further impairment loss may arise. For intangible assets, where there are favourable changes in value in use, reversal of impairment loss may arise. As at 31 December 2015, the carrying amount of intangible assets is RMB23,853,000 net of accumulated amortization of RMB111,240,000 (2014: RMB16,292,000 net of accumulated amortisation of RMB102,796,000).

# 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY *(Continued)*

## Key sources of estimation uncertainty *(Continued)*

### Allowance for bad and doubtful debts

The policy for allowance for doubtful debts of the Group is based on the evaluation of recoverability and aging analysis of each customer individually based on management's judgement. A net reversal of allowance for bad and doubtful debts amounted to RMB13,934,000 (2014: allowance for bad and doubtful debts amounted to RMB47,513,000) for the year ended 31 December 2015 was recognised in the profit or loss. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. If the financial condition of customers of the Group were improved and is able to repay the receivable, reversal of allowance may be required. The carrying amount of the Group's trade receivables as at 31 December 2015 is RMB96,794,000 net of allowance for bad and doubtful debts of RMB61,924,000 (2014: RMB87,931,000 net of allowance for bad and doubtful debts of RMB87,588,000).

### Allowance for inventories

The management of the Group reviews an aging analysis and market demands of inventories at the end of each reporting period, and makes allowance for inventory obsolescence for items that are identified as obsolete, slow-moving and for inventories with net realisable values lower than their carrying amounts taking into account of market demands and the estimated selling prices. The allowance for inventories as at 31 December 2015 amounted to RMB303,493,000 (2014: RMB397,439,000). The management estimates the net realisable value for goods based primarily on the latest selling prices and current market conditions. The carrying amount of the inventories of the Group as at 31 December 2015 is RMB189,174,000 (2014: RMB170,024,000).

### Taxation

As detailed in note 12, there are tax audit cases initiated on the Hong Kong tax affairs of certain group entities for which the ultimate tax determination is uncertain up to the issue of these financial statements. Where the final tax outcome of such cases is different from initial estimate, such differences will have material impact on the current income tax in the year when such a determination is made.

No tax provision is recognised in current year (2014: nil) as the directors of the Company are of the opinion that the tax audit exercise is still at a preliminary stage and that no profits tax is payable by the Group as the subsidiaries in question did not carry out any business, nor derive any profits, in Hong Kong except for one subsidiary which has Hong Kong operation with accumulated tax losses carried forward amounted to HK$101,008,000 (equivalent to approximately RMB82,271,000). Accordingly, no additional provision for Hong Kong Profits Tax is considered necessary in respect of the tax audit.

# 4 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group's overall strategy remains unchanged from prior year.

At the end of the year, the capital structure of the Group consisted of debts, net cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, issue of new shares and the raising of loans.

# 5 FINANCIAL INSTRUMENTS

## Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, available-for-sale investment, financial asset of fair value through profit or loss, pledged bank deposits, cash and cash equivalents, trade and other payables and bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), liquidity risk and credit risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Market risk

*(i) Currency risk*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and inter-company balances, which expose the Group to foreign currency risk at the reporting date are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **At 31 December 2015 RMB'000** | At 31 December 2014 RMB'000 | **At 31 December 2015 RMB'000** | At 31 December 2014 RMB'000 |
| HK$ | **1,891,073** | 1,799,711 | **2,906,750** | 2,744,682 |
| Renminbi ("RMB") | **275,030** | 260,295 | **691,863** | 596,418 |
| United States dollar ("US$") | **1,318,920** | 1,081,654 | **1,512,618** | 1,287,724 |
| New Taiwan dollar ("NT$") | **29,491** | 27,953 | **11,635** | 11,942 |
| Great British Pound ("GBP") | **8,107** | 6,421 | **7,789** | 7,789 |
| Japanese Yen ("JPY") | **4,607** | 2,879 | **4,439** | 3,632 |

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

# 5 FINANCIAL INSTRUMENTS *(Continued)*

## Financial risk management objectives and policies *(Continued)*

### Market risk *(Continued)*

*(i)* *Currency risk (Continued)*

Sensitivity analysis

The Group is mainly exposed to currency of HK$, RMB and US$.

The following table details the Group's sensitivity to a 5% increase and decrease in HK$, RMB and US$ against the relevant functional currencies of the Group entities. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes receivables, payables, inter-company balances and external loans where the denomination is in a currency other than the functional currency of the relevant Group entity. A negative number below indicates a decrease in profit before taxation for the year ended 31 December 2015 and an increase in loss before taxation for the nine months ended 31 December 2014 where HK$, RMB and US$ strengthen 5% against the functional currency of the respective Group entities. For a 5% weakening of HK$, RMB and US$ against the functional currency of the respective Group entities, there would be an equal and opposite impact.

| HK$ impact | | RMB impact | | US$ impact | |
|---|---|---|---|---|---|
| **Year ended 31 December 2015 RMB'000** | Nine months ended 31 December 2014 RMB'000 | **Year ended 31 December 2015 RMB'000** | Nine months ended 31 December 2014 RMB'000 | **Year ended 31 December 2015 RMB'000** | Nine months ended 31 December 2014 RMB'000 |
| **(50,784)** | (47,249) | **(20,842)** | (16,806) | **(9,685)** | (10,304) |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. The financial impact on exchange difference from GBP, JPY and NT$ is immaterial and therefore no sensitivity analysis has been prepared.

# 5 FINANCIAL INSTRUMENTS *(Continued)*

## Financial risk management objectives and policies *(Continued)*

### Market risk *(Continued)*

*(ii)* *Interest rate risk*

During the year, the Group was exposed to cash flows interest rate risk through the impact of the rate changes on floating interest rate bank loans.

The Group's cash flow interest rate risk was mainly concentrated on the fluctuation of Hong Kong Inter-Bank Offered Rate arising from the Group's US$ denominated borrowings.

The Group's cash and cash equivalents have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on cash and cash equivalents. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as they are within short maturity period.

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 26 for details of these borrowings). The management monitors interest rate exposure and will consider to repay the fixed-rate bank borrowings when significant interest rate exposure is anticipated.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank loans. The analysis is prepared assuming the amount of variable-rate bank loans outstanding at the end of the year was outstanding for the whole period.

If interest rates had been 30 basis points (2014: 30 basis points) higher and all other variables were held constant, the potential effects on profit before taxation for the year ended 31 December 2015 and loss before taxation for the nine months ended 31 December 2014 are as follows:

| | **Year ended 31 December 2015 RMB'000** | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Decrease in profit/increase in loss | **223** | 288 |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

# 5 FINANCIAL INSTRUMENTS *(Continued)*

## Financial risk management objectives and policies *(Continued)*

### Liquidity risk management

The directors of the Company have built a liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting year.

| | Weighted effective interest rate % | On demand RMB'000 | Less than 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Carrying Amount RMB'000 |
|---|---|---|---|---|---|
| At 31 December 2015 | | | | | |
| Non-derivative financial liabilities | | 44,529 | 128,873 | 173,402 | 173,402 |
| Bank loans | 2.25 | – | 97,269 | 97,269 | 95,129 |
| | | 44,529 | 226,142 | 270,671 | 268,531 |
| At 31 December 2014 | | | | | |
| Non-derivative financial liabilities | | 16,769 | 202,362 | 219,131 | 219,131 |
| Bank loans | 2.15 | – | 115,208 | 115,208 | 112,783 |
| | | 16,769 | 317,570 | 334,339 | 331,914 |

# 5 FINANCIAL INSTRUMENTS *(Continued)*

## Financial risk management objectives and policies *(Continued)*

### Credit risk

The Group's principal financial assets are trade and other receivables, pledged bank deposits and cash and cash equivalents, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current lighting industry environment.

In order to minimise the credit risk in relation to trade receivables, the management of the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are mainly banks with high credit-ratings assigned by international credit-rating agencies and PRC state-owned banks with good reputation.

The Group has concentration of credit risk in trade receivables as 5.7% (2014: 14.3%) and 17.3% (2014: 47.8%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

### Fair value

The Group measures the fair value of investment properties and financial asset at fair value through profit or loss at the end of the reporting period on a recurring basis. The HKFRS 13, Fair value measurement, disclosures of its investment properties and financial asset at fair value through profit or loss are presented in note 14 and note 21, respectively.

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair value as at 31 December 2015 and 2014.

# 6 REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services rendered. Specifically, the Group's reportable segments under HKFRS 8 are as follows:

| | | |
|---|---|---|
| LED decorative lighting | – | manufacture and distribution of LED decorative lighting products and incandescent decorative lighting products |
| General illumination lighting | – | manufacture and distribution of LED general illumination lighting products and entertainment lighting products |
| All others | – | distribution of lighting product accessories |

During the year ended 31 December 2015, the chief operating decision maker of the Group changed the structure of internal reports they review regularly in allocating resources to segments and in assessing their performance. The incandescent decorative lighting segment is combined into the LED decorative lighting segment, while the LED general illumination lighting segment and the entertainment lighting segment are combined to form the general illumination lighting segment. The change in the basis of internal reports to the chief operating decision maker is to combine segments with similar economic characteristics for the purpose of a more efficient resources allocation and performance assessment. As a result of the above change, the corresponding figures of segment reporting for the nine months ended 31 December 2014 were restated to reflect the combination of segments.

Revenue represents the fair value of the consideration received and receivable for goods sold by the Group to external customers during the year.

# 6 REVENUE AND SEGMENT INFORMATION *(Continued)*

## Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| **Segment revenue** | | |
| LED decorative lighting | 415,681 | 361,075 |
| General illumination lighting | 183,845 | 190,105 |
| All others | 2,912 | 6,993 |
| | 602,438 | 558,173 |
| **Segment results** | | |
| LED decorative lighting | 76,121 | (43,235) |
| General illumination lighting | 25,203 | (102,885) |
| All others | 716 | (1,467) |
| | 102,040 | (147,587) |
| Unallocated expenses | (32,104) | (30,160) |
| Unallocated other gains, losses and expenses | (55,873) | (7,863) |
| Finance costs | (2,693) | (4,174) |
| Change in fair value of investment properties | (1,795) | 253 |
| Share of losses of associates and a jointly controlled entity | (99) | (6,409) |
| **Profit/(loss) before taxation** | 9,476 | (195,940) |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit/loss represents the profit/loss incurred by each segment without allocation of unallocated expenses, certain other gains or losses and expenses, finance costs, change in fair value of investment properties, share of losses of associates and share of loss of a jointly controlled entity. This is the measure reported to the board of directors of the Company for the purposes of resource allocation and performance assessment.

# 6 REVENUE AND SEGMENT INFORMATION *(Continued)*

## Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| **Segment assets** | | |
| LED decorative lighting | 627,675 | 535,268 |
| General illumination lighting | 316,324 | 290,476 |
| All others | 6,092 | 7,418 |
| Total segment assets | 950,091 | 833,162 |
| Unallocated assets | 524,900 | 691,389 |
| Consolidated total assets | 1,474,991 | 1,524,551 |
| **Segment liabilities** | | |
| LED decorative lighting | 134,793 | 164,853 |
| General illumination lighting | 59,304 | 86,954 |
| All others | 4,370 | 3,199 |
| Total segment liabilities | 198,467 | 255,006 |
| Unallocated liabilities | 113,040 | 132,788 |
| Consolidated total liabilities | 311,507 | 387,794 |

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable and operating segments other than investment properties, interest in associates, interest in a jointly controlled entity, financial asset at fair value through profit or loss and available-for-sale investments. Assets used jointly by reportable and operating segments are allocated on the basis of the revenues earned by individual reportable and operating segments; and

- all liabilities are allocated to reportable and operating segments other than bank borrowings, government grants and deferred taxation. Liabilities for which operating segments are jointly liable are allocated in proportion to the revenues earned by individual reportable and operating segments.

# 6 REVENUE AND SEGMENT INFORMATION *(Continued)*

## Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, prepaid lease payments, intangible assets, goodwill, interests in associates and deposits made on acquisition of property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset.

| | Revenues from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | **Year ended 31 December 2015 RMB'000** | Nine months ended 31 December 2014 RMB'000 | **31 December 2015 RMB'000** | 31 December 2014 RMB'000 |
| United States of America ("USA") | **310,899** | 182,346 | **42,944** | 38,501 |
| PRC | **84,398** | 61,418 | **199,029** | 237,333 |
| Other countries* | **207,141** | 314,409 | **77,275** | 71,435 |
| | **602,438** | 558,173 | **319,248** | 347,269 |

* Countries included in this category representing their revenues from external customers and balances of specified non-current assets are individually less than 10% of the total sales and non-current assets of the Group for the year ended 31 December 2015 and for the nine months ended 31 December 2014, respectively.

## Information about major customers

There were no customers who individually contribute over 10% of the total sales of the Group for the year ended 31 December 2015 and for the nine months ended 31 December 2014.

# 6 REVENUE AND SEGMENT REPORTING *(Continued)*

## Other segment information

| | LED decorative lighting RMB'000 | General illumination lighting RMB'000 | All others RMB'000 | Segment-total RMB'000 | Unallocated amount RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2015** | | | | | | |
| Additions to non-current segment assets | 21,431 | 8,771 | 134 | 30,336 | – | 30,336 |
| Depreciation and amortisation | 22,915 | 10,094 | 166 | 33,175 | 1,054 | 34,229 |
| Net reversal of allowance for bad and doubtful debts | 9,614 | 4,252 | 68 | 13,934 | – | 13,934 |
| Gain on disposal of property, plant and equipment and prepaid lease payments | 18,931 | 8,373 | 132 | 27,436 | – | 27,436 |
| **Nine months ended 31 December 2014** | | | | | | |
| Additions to non-current segment assets | 38,092 | 23,824 | 823 | 62,739 | – | 62,739 |
| Depreciation and amortisation | 17,603 | 10,582 | 391 | 28,576 | 790 | 29,366 |
| Net allowance for bad and doubtful debts | 29,267 | 17,596 | 650 | 47,513 | – | 47,513 |
| Gain on disposal of property, plant and equipment and prepaid lease payments | 32,494 | 19,535 | 722 | 52,751 | – | 52,751 |
| Impairment loss recognised in respect of property, plant and equipment | 10,968 | 21,769 | – | 32,737 | – | 32,737 |
| Transfer of impairment of onerous contracts upon receipt of property, plant and equipment | 1,077 | 1,077 | – | 2,154 | – | 2,154 |

## 7(a) OTHER GAINS AND LOSSES

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Gain on disposal of property, plant and equipment and prepaid lease payments | 27,436 | 52,751 |
| Net reversal of allowance for/(allowance for) bad and doubtful debts | 13,934 | (47,513) |
| Net exchange gain | 22,771 | 1,519 |
| Others | (538) | (3,313) |
| | 63,603 | 3,444 |

## 7(b) OTHER EXPENSES

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Research and development costs, net | 3,516 | 9,403 |
| Compensation relating to litigation | 1,235 | 9,108 |
| | 4,751 | 18,511 |

# 8 IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT

The impairment losses by CGUs are as follows:

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| CGU1 (note 1) | – | 10,968 |
| CGU2 (note 2) | – | 21,769 |
| Total | – | 32,737 |

Note 1: CGU1 represents the group of assets that generate cash inflow from manufacturing and distribution of LED decorative lighting products with operations located in PRC and Vietnam.

Note 2: CGU2 represents the group of assets that generate cash inflow from manufacturing and distribution of general illumination lighting products with operations located in PRC.

## CGU1

No impairment losses were recognised in respect of property, plant and equipment for the year ended 31 December 2015.

For the nine months ended 31 December 2014, as the market in which CGU1 was engaged has not performed in accordance with what the directors expected, the directors of the Company considered this was an impairment indicator. The directors of the Company have first considered the recoverable amounts of individual assets in CGU1 unless the asset's VIU cannot be estimated to be close to its fair value less costs to sell or the assets do not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the assets belong. An impairment assessment was conducted by the directors of the Company on CGU1. There were impairment losses of RMB10,968,000 for the nine months ended 31 December 2014 for CGU1 which has been allocated to property, plant and equipment. The impairment loss was recognised for CGU1 for which the recoverable amount, which was based on value in use, was less than the carrying amount. The value in use calculation used cash flow forecast derived from the most recent financial budget approved by management based on their best estimates. The reason for the impairment loss was mainly due to the decrease in market demand on the products of CGU1 and the directors of the Company revised the estimated future sales accordingly.

## 8 IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### CGU1 *(Continued)*

At 31 December 2015, the projected period was 5 years (2014: 6 years) for CGU1, which represents the average remaining useful lives of the property, plant and equipment in CGU1 and all the budget covering the projection have been approved by the management. The growth rate used in the forecast was 0% for year ending 31 December 2016, and 3% for year ending 31 December 2017 to 31 December 2020. The directors of the Company believe that the growth rates used in the forecast are justifiable to the PRC and overseas markets CGU1 engaged into. The cash flow forecast was discounted at 13.53% (2014: 15.28%) which reflected the return on assets and the risks specific to CGU1. Some of the key assumptions of the value in use calculations related to the estimation of budgeted sales and gross margin, such estimation was based on the expectation for the market development based on the management's estimate.

### CGU2

No impairment losses were recognised in respect of property, plant and equipment for the year ended 31 December 2015.

For the nine months ended 31 December 2014, as the market in which CGU2 was engaged has not performed in accordance with what the directors expected, the directors of the Company considered this was an impairment indicator. The directors of the Company have first considered the recoverable amounts of individual assets in CGU2 unless the asset's VIU cannot be estimated to be close to its fair value less costs to sell or the assets do not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for CGU2 to which the assets belong. An impairment assessment was conducted by the directors of the Company on CGU2. There were impairment losses of RMB21,769,000 for the nine months ended 31 December 2014 for CGU2 which has been allocated to property, plant and equipment. The impairment loss was recognised for CGU2 for which the recoverable amount, which was based on value in use, was less than the carrying amount. The value in use calculation used cash flow forecast derived from the most recent financial budget approved by management based on their best estimates. The reason for the impairment loss was mainly due to the significant over-supply of the products in the market that CGU2 was engaged which lead to the decrease in selling price in the market.

At 31 December 2015, the projected period was 5 years (2014: 6 years) for CGU2, which represents the average remaining useful lives of the property, plant and equipment in CGU2 and all the budget covering the projection have been approved by the management. The growth rate used in the forecast was 6% for year ending 31 December 2016, and 3% for year ending 31 December 2017 to 31 December 2020. The directors of the Company believe that the growth rates used in the forecast are justifiable to the PRC and overseas markets CGU2 engaged into. The cash flow forecast was discounted at 13.53% (2014: 15.28%) which reflected the return on assets and the risks specific to CGU2. Some of the key assumptions of the value in use calculations related to the estimation of budgeted sales and gross margin, such estimation was based on the expectation for the market development based on the management's estimate.

## 9 FINANCE COSTS

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Interest on bank borrowings | 2,693 | 4,174 |

## 10 PROFIT/(LOSS) BEFORE TAXATION

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Profit/(loss) before taxation has been arrived at after charging/(crediting): | | |
| Directors' remuneration | | |
| – current year | 4,410 | 3,503 |
| – waived during the year | – | (1,768) |
| Contributions to defined contribution retirement plan | 103 | 131 |
| Equity-settled share based payment expenses | 2,291 | 934 |
| Salaries, wages and other benefits | 152,040 | 179,759 |
| | 158,844 | 182,559 |
| Depreciation (note 15) | 30,603 | 25,509 |
| Amortisation | | |
| – prepaid lease payment (note 16) | 1,196 | 1,303 |
| – intangible assets (note 18) | 2,430 | 2,554 |

# 10 PROFIT/(LOSS) BEFORE TAXATION *(Continued)*

| | **Year ended 31 December 2015 RMB'000** | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Auditor's remuneration | | |
| – audit service | **2,362** | 2,297 |
| – non-audit services | **176** | 1,575 |
| | **2,538** | 3,872 |
| Cost of inventories (note 22) | **435,167** | 512,435 |
| Operating lease rentals in respect of | | |
| – rented premises | **6,782** | 3,506 |
| and after crediting: | | |
| Interest income from bank deposits | **(3,434)** | (2,019) |
| Property rental income before deduction of negligible outgoings | **(1,099)** | (2,184) |

# 11 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

| | Year ended 31 December 2015 | | | | | Nine months ended 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Retirement benefits scheme contributions | Equity-settled share based payments | Total | Fees | Salaries and other benefits | Retirement benefits scheme contributions | Equity-settled share based payments | Waived during the year | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB' 000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Executive directors** | | | | | | | | | | | |
| – Mr Fan Xin (appointed on 9 October 2015) | – | 56 | – | – | 56 | – | – | – | – | – | – |
| – Mr. Ben Fan (resigned on 20 January 2016) | – | 244 | – | 152 | 396 | – | 1,443 | – | – | (1,359) | 84 |
| – Mr. Wang Liang Hai (appointed on 25 August 2014) | – | 163 | – | 152 | 315 | – | 56 | – | – | – | 56 |
| – Mr. Seah Han Leong (appointed on 25 August 2014) | – | 1,017 | – | 194 | 1,211 | – | 351 | – | – | – | 351 |
| – Mr. Pan Jin (appointed on 25 August 2014) | – | 611 | – | 194 | 805 | – | 208 | – | – | – | 208 |
| – Mr. Lu Zhi Cheng (resigned on 9 October 2015) | – | 189 | – | 304 | 493 | – | 84 | – | – | – | 84 |
| – Ms. Michelle Wong (resigned on 22 September 2014) | – | – | – | – | – | -- | 454 | 2 | – | (409) | 47 |
| – Mr. Fan Pong Yang (resigned on 22 September 2014) | – | – | – | 101 | 101 | – | 273 | – | 61 | – | 334 |
| **Independent non-executive directors** | | | | | | | | | | | |
| – Mr. Fan Ren Da, Anthony (appointed on 25 August 2014) | – | 195 | – | 61 | 256 | – | 67 | – | – | – | 67 |
| – Mr. Liu Tian Min (appointed on 25 August 2014) | – | 195 | – | 61 | 256 | – | 67 | – | – | – | 67 |
| – Ms. Li Ming Qi (appointed on 25 August 2014) | – | 195 | – | 61 | 256 | – | 67 | – | – | – | 67 |
| – Mr. Wong Kon Man, Jason (resigned on 22 September 2014) | – | – | – | – | – | – | 55 | – | 26 | – | 81 |
| – Mr. Suen Man Tak, Stephen (resigned on 22 September 2014) | – | – | – | – | – | – | 55 | – | – | – | 55 |
| – Mr. Weng Shih Yuan (resigned on 22 September 2014) | – | – | – | – | – | – | 55 | – | 42 | – | 97 |
| – Ms. Liu Sheng Ping (resigned on 22 September 2014) | – | – | – | – | – | – | 55 | – | 26 | – | 81 |
| **Non-executive director** | | | | | | | | | | | |
| – Mr. Liu Wei Dong (appointed on 25 August 2014) | – | 165 | – | 100 | 265 | – | 56 | – | – | – | 56 |
| | – | 3,030 | – | 1,380 | 4,410 | – | 3,346 | 2 | 155 | (1,768) | 1,735 |

## 11 DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Of the five individuals with the highest emoluments, two (2014: one) are directors whose emoluments are listed above. The aggregate of the emoluments in respect of the other three (2014: four) individuals are as follows:

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Employees | | |
| – Basic salaries and allowances | 1,861 | 1,710 |

The emoluments of the three (2014: four) individuals with the highest emoluments are within the following bands:

| | Year ended 31 December 2015 | Nine months ended 31 December 2014 |
|---|---|---|
| Up to HK$1,000,000 | 3 | 4 |

During the year ended 31 December 2015 and nine months ended 31 December 2014, no emoluments were paid by the Group to directors and the highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12 TAXATION

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Taxation in the consolidated statement of comprehensive income represents: | | |
| Provision for the year | 5,483 | 3,041 |
| Under-provision in respect of prior years | – | 1,997 |
| | 5,483 | 5,038 |
| Deferred taxation (Note 28) | (492) | (852) |
| | 4,991 | 4,186 |

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

The subsidiaries of the Company established in the PRC are subject to PRC Enterprise Income Tax at 25% for the year ended 31 December 2015 and nine months ended 31 December 2014, except that one entity is entitled to preferential tax rate of 15% as it is officially endorsed as High-New Technology Enterprise till 9 October 2017.

Pursuant to the relevant laws and regulations in the USA, the Company's subsidiaries incorporated in the USA are subject to the gradual USA corporate income tax rate up to 35% for the year ended 31 December 2015 and the nine months ended 31 December 2014.

Pursuant to the relevant laws and regulations in Vietnam, the Company's subsidiary incorporated in Vietnam is subject to Vietnam corporate income tax at 20% for the year ended 31 December 2015 and nine months ended 31 December 2014.

The subsidiaries of the Company incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2015 and the nine months ended 31 December 2014.

Dividends paid to the non-resident shareholder of a Taiwan subsidiary are generally subject to withholding tax of 20%.

## 12 TAXATION *(Continued)*

Tax audit conducted by the Inland Revenue Department ("IRD") in Hong Kong

IRD is conducting a tax audit to the Group for the year of assessment back from 2005/06.

On 26 March 2012, the IRD issued protective profits tax assessments in aggregate of HK$5,250,000 (approximately equivalent to RMB4,398,000) relating to the year of assessment 2005/06, that is, for the financial year ended 31 December 2005, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

On 8 March 2013, the IRD additionally issued protective profits tax assessments in aggregate of HK$5,425,000 (approximately equivalent to RMB4,545,000) relating to the year of assessment 2006/07, that is, for the financial year ended 31 December 2006, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

On 14 March 2014, the IRD additionally issued estimated profits tax assessments in aggregate of HK$28,425,000 (approximately equivalent to RMB23,814,000) relating to the year of assessment 2007/08, that is, for the financial year ended 31 December 2007, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these estimated assessments.

On 9 January 2015 and 27 March 2015, the IRD additionally issued protective profits tax assessments in aggregate of HK$35,838,000 (approximately equivalent to RMB30,024,000) relating to the year of assessment 2008/09, that is, for the financial year ended 31 December 2008, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

On 31 December 2015, the IRD additionally issued protective profits tax assessments in aggregate of HK$24,288,000 (approximately equivalent to RMB20,348,000) relating to the year of assessment 2009/10, that is, for the financial year ended 31 December 2009, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

As at 31 December 2015, the IRD agreed to hold over the tax demanded for the years of assessment 2005/06 to 2009/10 on the condition of the purchase of tax reserve certificates ("TRCs") of totaling HK$14,250,000 (approximately equivalent to RMB11,943,000) which have been recorded as tax recoverable. On 24 March 2016, the Group purchased TRCs totaled HK$11,200,000 (approximately equivalent to RMB9,383,000).

The directors of the Company are of the opinion that no profits tax is payable by the Group as the subsidiaries in question did not carry out any business, nor derive any profits, in Hong Kong. Accordingly, no additional provision for Hong Kong Profits Tax is considered necessary in respect of the tax audit.

## 12 TAXATION *(Continued)*

Reconciliation between tax expense and accounting profit/loss at applicable tax rates:

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Profit/(loss) before taxation | **9,476** | (195,940) |
| Notional tax on profit/(loss) before taxation, calculated at the PRC Enterprise Income Tax rate at 25% (2014: 25%) | **2,369** | (48,985) |
| Tax effect of expenses not deductible for tax purposes | **133** | 4,158 |
| Tax effect of income not taxable for tax purposes | **(10,498)** | (3,114) |
| Tax effect of tax losses not recognised | **7,110** | 7,821 |
| Tax effect of temporary difference not recognised | **1,273** | 33,196 |
| Effect of different tax rates on subsidiaries operating in other jurisdictions | **4,604** | 9,113 |
| Under-provision in prior years | **–** | 1,997 |
| Actual tax expense | **4,991** | 4,186 |

## 13 EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share attributable to the owners of the Company is based on the following data:

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Profit/(loss) for year attributable to owners of the Company | **5,817** | (196,048) |

## 13 EARNINGS/(LOSS) PER SHARE *(Continued)*

| | Number of shares | |
|---|---|---|
| | **Year ended 31 December 2015 '000** | Nine months ended 31 December 2014 '000 |
| Issued ordinary shares at beginning of the year | **1,939,319** | 939,320 |
| Effect of shares issued upon the Subscription | **–** | 555,555 |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share | **1,939,319** | 1,494,875 |

The equity-settled share options were not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 31 December 2015 and nine months ended 31 December 2014.

## 14 INVESTMENT PROPERTIES

| | RMB'000 |
|---|---|
| At 31 March 2014 | 15,000 |
| Increase in fair value recognised in profit or loss | 253 |
| Currency realignment | 47 |
| At 31 December 2014 | 15,300 |
| Decrease in fair value recognised in profit or loss | (1,795) |
| Currency realignment | 1,195 |
| At 31 December 2015 | 14,700 |

# 14 INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties are measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, ***Fair value measurement***. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

| | **At 31 December 2015 RMB'000** | At 31 December 2014 RMB'000 |
|---|---|---|
| Recurring fair value measurement: | | |
| Properties held under medium-term leases in the PRC | **14,700** | 15,300 |

As at 31 December 2015 and 2014, the fair value of the Group's investment properties are categorised into Level 2, which has been arrived at by the directors on the basis of a valuation carried out on that date by an independent valuer who holds a recognisable and relevant professional qualification and has recent experience in the location and category of the investment properties being valued. The valuation was made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests. The valuation was determined based on direct comparison approach by reference to recent market prices for similar properties in the similar locations and conditions.

During the year ended 31 December 2015 and nine months ended 31 December 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

# 15 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RMB'000 | Furniture, fixtures and equipment RMB'000 | Leasehold improvements RMB'000 | Vehicles RMB'000 | Moulds RMB'000 | Plant and machinery RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 31 March 2014 | 557,164 | 65,559 | 330,907 | 16,357 | 109,745 | 889,321 | 45,048 | 2,014,101 |
| Currency realignment | (1,736) | 158 | (282) | (43) | 54 | (1,239) | (49) | (3,137) |
| Additions | 1,108 | 2,719 | 330 | 109 | 2,691 | 52,050 | 1,434 | 60,441 |
| Acquisition of a subsidiary | 168 | 177 | 237 | – | 1,071 | 104 | – | 1,757 |
| Disposals | (40,644) | (3,143) | (27,906) | (2,583) | (447) | (3,618) | – | (78,341) |
| At 31 December 2014 | 516,060 | 65,470 | 303,286 | 13,840 | 113,114 | 936,618 | 46,433 | 1,994,821 |
| Currency realignment | 3,182 | 1,704 | 354 | 362 | 1,331 | 220 | – | 7,153 |
| Additions | 432 | 1,733 | 4,661 | 3,144 | 1,603 | 2,911 | 6,823 | 21,307 |
| Transfers | 45,803 | 698 | – | – | – | – | (46,501) | – |
| Disposals | (25,956) | (4,587) | – | (3,579) | – | (62) | (732) | (34,916) |
| At 31 December 2015 | 539,521 | 65,018 | 308,301 | 13,767 | 116,048 | 939,687 | 6,023 | 1,988,365 |
| **Depreciation and impairment** | | | | | | | | |
| At 31 March 2014 | 393,941 | 62,818 | 317,411 | 15,994 | 109,206 | 811,105 | 39,930 | 1,750,405 |
| Currency realignment | (898) | 143 | (272) | (40) | 51 | (1,008) | (115) | (2,139) |
| Charge for the period | 5,889 | 1,138 | 3,020 | 171 | 488 | 14,803 | – | 25,509 |
| Impairment losses recognised in profit and loss | – | – | – | – | – | 32,737 | – | 32,737 |
| Impairment losses recognised in prior year in connection with obligation under onerous contracts | – | – | – | – | – | – | 2,154 | 2,154 |
| Eliminated on disposals | (22,616) | (3,069) | (26,278) | (2,583) | (447) | (2,995) | – | (57,988) |
| At 31 December 2014 | 376,316 | 61,030 | 293,881 | 13,542 | 109,298 | 854,642 | 41,969 | 1,750,678 |
| Currency realignment | 684 | 1,455 | 291 | 391 | 1,341 | 226 | – | 4,388 |
| Charge for the year | 8,001 | 1,486 | 3,679 | 224 | 748 | 16,465 | – | 30,603 |
| Transfers | 41,969 | – | – | – | – | – | (41,969) | – |
| Eliminated on disposals | (20,995) | (4,487) | – | (3,569) | – | (56) | – | (29,107) |
| At 31 December 2015 | 405,975 | 59,484 | 297,851 | 10,588 | 111,387 | 871,277 | – | 1,756,562 |
| **Carrying values** | | | | | | | | |
| At 31 December 2014 | 139,744 | 4,440 | 9,405 | 298 | 3,816 | 81,976 | 4,464 | 244,143 |
| At 31 December 2015 | 133,546 | 5,534 | 10,450 | 3,179 | 4,661 | 68,410 | 6,023 | 231,803 |

## 15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment other than those under construction in progress are depreciated on a straight-line basis at the following rates per annum:

For the leasehold land and buildings in Hong Kong, the cost of leasehold land and buildings is depreciated over their estimated useful lives of 50 years. The cost of buildings in PRC is depreciated over 20 years.

| | |
|---|---|
| Furniture, fixtures and equipment | 15% – 20% |
| Leasehold improvements | 20% |
| Vehicles | 20% |
| Moulds | 20% |
| Plant and machinery | 10% |

The carrying value of property interests which are held under leases comprises:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Buildings in the PRC | 79,475 | 87,876 |
| Buildings in Vietnam | 8,232 | 7,931 |
| Land and buildings in Dubai | 36,570 | 34,985 |
| Land and buildings in United Kingdom | 9,269 | 8,952 |
| | 133,546 | 139,744 |

The Group has pledged certain of its buildings with aggregate carrying values of RMB20,091,000 (31 December 2014: RMB10,748,000) at the end of the reporting period to secure the credit facilities granted to the Group.

At 31 December 2015, property certificates of the Group's properties with an aggregate net book value of RMB18,181,000 are yet to be obtained (2014: RMB21,144,000).

# 16 PREPAID LEASE PAYMENTS

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| **Carrying value** | | |
| At the beginning of the year | 58,049 | 60,055 |
| Currency realignment | 54 | (81) |
| Additions | – | 2,298 |
| Disposals | (18,810) | (2,920) |
| Amortisation for the year | (1,196) | (1,303) |
| At the end of the year | 38,097 | 58,049 |
| The carrying value of prepaid lease payments are situated in | | |
| – the PRC | 29,263 | 49,027 |
| – Vietnam | 8,834 | 9,022 |
| | 38,097 | 58,049 |

# 17 GOODWILL

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Balance at beginning of the year | **7,661** | 600 |
| Currency realignment | **448** | (44) |
| Additions | **–** | 7,705 |
| Accumulated impairment losses | **–** | (600) |
| At the end of the year | **8,109** | 7,661 |

On 8 May 2014, the Group entered into an acquisition agreement to acquire 50% issued share capital of Tivoli, LLC at the consideration of US$3,000,000 (equivalent to approximately RMB18,509,000) (the "Acquisition"). Completion of the Acquisition took place on 15 May 2014. Prior to completion of the Acquisition, Tivoli was a jointly controlled entity of the Group. Upon the completion of the Acquisition, Tivoli became a wholly-owned subsidiary of the Company.

The goodwill of RMB7,705,000 arising from the acquisition is attributable to the profitability and the synergies expected to arise from the acquired business.

The acquired business contributed revenue of RMB46,114,000 and net profit of RMB10,663,000 to the Company's owners for the period from the acquisition date up to 31 December 2014. If the acquisition had occurred on 1 April 2014, the contributed revenue and loss attributable to Company's shareholders for the year ended 31 December 2014 would have been RMB60,087,000 and RMB2,155,000, respectively.

Goodwill is allocated to the Group's CGU of LED decorative lighting with operations located in the USA. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 5% (2014: 5%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.53% (2014: 15.28%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

# 18 INTANGIBLE ASSETS

| | Customer relationship RMB'000 | Licenses, patent, trademarks, software and technology know-how RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| At 31 March 2014 | 17,787 | 89,708 | 107,495 |
| Acquisition of a subsidiary (note 17) | – | 11,334 | 11,334 |
| Currency realignment | 57 | 202 | 259 |
| At 31 December 2014 | 17,844 | 101,244 | 119,088 |
| Additions through internal Development | – | 9,029 | 9,029 |
| Currency realignment | 1,045 | 4,886 | 5,931 |
| At 31 December 2015 | 18,889 | 115,159 | 134,048 |
| **Accumulated amortisation and impairment** | | | |
| At 31 March 2014 | (17,176) | (82,772) | (99,948) |
| Amortisation | (430) | (2,124) | (2,554) |
| Currency realignment | (51) | (243) | (294) |
| At 31 December 2014 | (17,657) | (85,139) | (102,796) |
| Amortisation | (187) | (2,243) | (2,430) |
| Currency realignment | (1,045) | (3,924) | (4,969) |
| At 31 December 2015 | (18,889) | (91,306) | (110,195) |
| **Carrying values** | | | |
| At 31 December 2015 | – | 23,853 | 23,853 |
| At 31 December 2014 | 187 | 16,105 | 16,292 |

## 18 INTANGIBLE ASSETS *(Continued)*

The above intangible assets are amortised on a straight line basis over the following periods:

| | |
|---|---|
| Customer relationship | 5 – 8 years |
| Licenses, patent, trademarks, software and technology know-how | 3 – 8 years |

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of comprehensive income.

## 19 INTERESTS IN ASSOCIATES

All the associates of the Group are accounted for using the equity method in the consolidated financial statements.

The carrying amount of the interests in associates are individually and in aggregate not material to the Group's financial position or result of operations. The aggregate amount of the Group's share of the associates' losses and total comprehensive income is RMB99,000 for the year ended 31 December 2015 (nine months ended 31 December 2014: nil).

## 20 AVAILABLE-FOR-SALE INVESTMENTS

| | **At 31 December 2015 RMB'000** | At 31 December 2014 RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost | **3,000** | 4,000 |
| Accumulated impairment loss recognised | **(692)** | (874) |
| | **2,308** | 3,126 |

Unlisted equity investments are measured at cost less accumulated impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably and these investments do not have a material effect on the Group's financial results and financial position.

# 21 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Recurring fair value measurements: | | |
| Unlisted fund | **105,380** | 105,500 |

On 29 October 2014, Heshan Tongfang Lighting Technology Company Limited ("Tongfang Lighting"), a wholly-owned subsidiary of the Company, entered into an overseas assets management plan contract (the "Contract") with China Asset Management Co., Ltd. ("China AMC", as asset manager) and China Construction Bank Corporation ("CCBC", as asset custodian), pursuant to which Tongfang Lighting has agreed to participate in the overseas assets management plan operated by China AMC (the "Fund") by depositing the investment amount of RMB105,500,000 (the "Investment Amount") in a designated account maintained with CCBC. Pursuant to the Fund, the Investment Amount is proposed to be invested principally in equity interest and equity-linked structured products of Sinopec Marketing Co., Ltd. and bonds (including convertible bonds), funds, money market instruments, derivatives commodities and other financial instruments as permitted by the applicable securities laws and the requirements of the China Securities Regulatory Commission.

The fair value of the Group's financial asset at fair value through profit or loss is measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

At as 31 December 2015 and 2014, the fair value of the Group's financial asset at fair value through profit or loss are categorised into Level 2, which have been arrived by the directors on the basis of the market price of recent transactions of the Fund. The Fund is not listed on any stock exchange but is transferrable in the market. Therefore, the fair value is determined with reference to recent transaction price of the Fund, which is an observable input in the market.

During the year ended 31 December 2015 and nine months ended 31 December 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## 22 INVENTORIES

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Raw materials | 32,116 | 27,980 |
| Work in progress | 45,531 | 63,239 |
| Finished goods | 111,527 | 78,805 |
| | 189,174 | 170,024 |

At 31 December 2015, certain finished goods with a carrying value of approximately RMB24,128,000 (31 December 2014: RMB15,641,000) were pledged to certain banks to secure the credit facilities granted to the Group.

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Carrying amount of inventories sold | 431,462 | 474,490 |
| Write down of inventories | 3,705 | 37,945 |
| | 435,167 | 512,435 |

## 23 TRADE AND OTHER RECEIVABLES

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Trade receivables | 151,777 | 155,005 |
| Bills receivables | 6,941 | 20,514 |
| Less: allowance for bad and doubtful debts | (61,924) | (87,588) |
| | 96,794 | 87,931 |
| Deposits paid to suppliers | 23,702 | 14,957 |
| Value added tax recoverable | 4,221 | 3,526 |
| Value added tax refundable on export sales | 72,470 | 90,401 |
| Other receivables | 13,735 | 21,685 |
| | 210,922 | 218,500 |

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 60 days to 90 days of issuance, except for certain well established customers in which the credit terms are up to 180 days. The following is an ageing analysis of trade and bills receivables presented based on the invoice dates (or date of revenue recognition, if earlier) and net of allowance for doubtful debts:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| 0 to 60 days | 38,384 | 41,523 |
| 61 to 90 days | 8,602 | 10,447 |
| 91 to 180 days | 7,717 | 19,941 |
| Over 180 days | 42,091 | 16,020 |
| | 96,794 | 87,931 |

## 23 TRADE AND OTHER RECEIVABLES *(Continued)*

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Neither past due nor impaired | 54,703 | 71,911 |
| Less than 6 months past due | 16,858 | 16,020 |
| | 71,561 | 87,931 |

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance 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.

Movement in the allowance for bad and doubtful debts:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| At beginning of the year | 87,588 | 71,419 |
| Net impairment loss (reversed)/recognised | (13,934) | 47,513 |
| Uncollectible amounts written off | (11,730) | (31,344) |
| At the end of the year | 61,924 | 87,588 |

Impairment losses in respect of trade receivables and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivables directly.

At 31 December 2015, the Group's trade and bills receivables of RMB72,696,000 (2014: RMB27,311,000) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB60,523,000 (2014: RMB7,833,000) was recognised.

At 31 December 2015, certain trade receivables with a carrying value of approximately RMB27,296,000 (2014: RMB11,339,000) were pledged to certain banks to secure the credit facilities granted to the Group.

## 24 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

The pledged bank deposits represent deposits pledged to banks to secure credit facilities granted to the Group.

Cash and cash equivalents comprise cash and bank deposits with an original maturity of three months or less.

## 25 TRADE AND OTHER PAYABLES

| | **At 31 December 2015 RMB'000** | At 31 December 2014 RMB'000 |
|---|---|---|
| Trade payables | **72,822** | 96,745 |
| Bills payables | **33,321** | 3,256 |
| Payroll and welfare payables | **7,681** | 15,736 |
| Other payables | **59,578** | 103,394 |
| Financial liabilities measured at amortised cost | **173,402** | 219,131 |
| Customers' deposits | **13,825** | 15,611 |
| Other taxes payable | **7,146** | 15,437 |
| | **194,373** | 250,179 |

Note: During the nine months ended 31 December 2014, the directors of the Company has decided to abort the investment in the economic development zone located in Jiangmen as a result of a change in business plan. Therefore, the Group cannot fulfill the conditions attaching to such grants and needs to refund the relevant government grants received amounted to RMB37,200,000, which is recorded in other payables as at 31 December 2014. Such government grants amounted to RMB37,200,000 have been refunded during the year ended 31 December 2015 by off-setting the proceeds from the disposal of property, plant and equipment and prepaid lease payments. The above off-setting transaction is excluded from the consolidated cash flow statement because it is a non-cash transaction.

## 25 TRADE AND OTHER PAYABLES *(Continued)*

The following is an ageing analysis of trade and bills payables presented based on the invoice date at the end of the year:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| 0 to 30 days | **49,861** | 25,319 |
| 31 to 60 days | **551** | 6,774 |
| 61 to 90 days | **10,517** | 5,155 |
| 91 to 180 days | **8,238** | 24,473 |
| 181 to 360 days | **14,697** | 16,932 |
| More than 360 days | **22,279** | 21,348 |
| | **106,143** | 100,001 |

The average credit period on purchase of goods ranges from 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. For those payables over credit period, the Group negotiated with respective creditors to extend the credit periods.

## 26 BANK BORROWINGS

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Bank borrowings repayable within one year | | |
| – secured | **20,780** | 46,052 |
| – unsecured | **74,349** | 66,731 |
| | **95,129** | 112,783 |

At 31 December 2015, included in the above bank borrowings are fixed-rate bank borrowings of RMB20,780,000 (2014: RMB16,732,000), which are repayable within one year. All of the bank borrowings are carried at amortised cost.

## 26 BANK BORROWINGS *(Continued)*

The range of contracted interest rates on the Group's bank borrowings are as follows:

| | **At 31 December 2015 RMB'000** | At 31 December 2014 RMB'000 |
|---|---|---|
| Contracted interest rates (per annum) | | |
| Fixed-rate borrowings | **1.92% ~ 4.54%** | 2.58% ~ 4.50% |
| Variable-rate borrowings | **2.76% ~ 4.50%** | 1.75% ~ 4.55% |

Included in the bank borrowings are the following amounts denominated in currencies other than the functional currency of the Group entities to which they relate:

| | **At 31 December 2015 RMB'000** | At 31 December 2014 RMB'000 |
|---|---|---|
| US$ | **95,129** | 111,499 |

## 27 GOVERNMENT GRANTS

During the year ended 31 December 2015, the Group received government grants of RMB2,250,000 (2014: nil) in aggregate from PRC government authorities for LED chips technology development. These government grants have been deferred during the year ended 31 December 2015 as the Group has not fulfilled the conditions attaching to these government grants.

During the year ended 31 December 2015, RMB4,147,000 (2014: RMB58,000) of the government grants have been released to profit or loss to net off with research and development expenses. The remaining balance of government grants received are deferred as the Group has not fulfilled the conditions attaching to such grants.

# 28 DEFERRED TAXATION

The following is the deferred tax liabilities recognised by the Group and movements during the year:

| | Taiwan withholding tax on undistributed earnings RMB'000 | Fair value adjustment on intangible assets RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 April 2014 | 2,601 | 2,537 | (117) | 5,021 |
| Credited to profit or loss | – | (662) | (190) | (852) |
| Currency realignment | 9 | 16 | – | 25 |
| At 31 December 2014 | 2,610 | 1,891 | (307) | 4,194 |
| (Credited)/charged to profit or loss | – | (798) | 306 | (492) |
| Currency realignment | 153 | 150 | (8) | 295 |
| At 31 December 2015 | 2,763 | 1,243 | (9) | 3,997 |

## (a) Deferred tax assets not recognised

At 31 December 2015, in accordance with the accounting policy set out in note 2(u), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB490,678,000 (2014: RMB466,132,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Except for the amount of RMB230,712,000 which will not expire under the relevant tax legislation, the remaining unused tax losses carried forward of RMB36,980,000, RMB10,255,000, RMB19,538,000, RMB151,909,000 and RMB41,284,000 will expire in 2017, 2018, 2019, 2020 and 2021, respectively, if unused.

## (b) Deferred tax liabilities not recognized

At 31 December 2015, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB20,358,000 (2014: RMB15,511,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

# 29 CAPITAL, RESERVES AND DIVIDENDS

## (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Share capital RMB'000 | Share premium RMB'000 | Capital redemption reserve RMB'000 | Special reserve RMB'000 | Share compensation reserve RMB'000 | Share options reserve RMB'000 | Translation reserve RMB'000 | Other reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2014 | 92,317 | 1,628,288 | 255 | 55,238 | 50,024 | 67,793 | (389,404) | (7,699) | (874,919) | 621,893 |
| Changes in equity for 2014: | | | | | | | | | | |
| Loss for the period | – | – | – | – | – | – | – | – | (10,759) | (10,759) |
| Other comprehensive income | – | – | – | – | – | – | (199,370) | – | – | (199,370) |
| Total comprehensive income | – | – | – | – | – | – | (199,370) | – | (10,759) | (210,129) |
| Issuance of new shares | 79,580 | 636,640 | – | – | – | – | – | – | – | 716,220 |
| Acquisition of non-controlling interest in a subsidiary | – | – | – | – | – | – | – | (521) | – | (521) |
| Recognition of equity-settled share based payments | – | – | – | – | – | 1,090 | – | – | – | 1,090 |
| Share option lapsed | – | – | – | – | – | (68,883) | – | – | 68,883 | – |
| | 79,580 | 636,640 | – | – | – | (67,793) | – | (521) | 68,883 | 716,789 |
| At 31 December 2014 | 171,897 | 2,264,928 | 255 | 55,238 | 50,024 | – | (588,774) | (8,220) | (816,795) | 1,128,553 |
| At 1 January 2015 | 171,897 | 2,264,928 | 255 | 55,238 | 50,024 | – | (588,774) | (8,220) | (816,795) | 1,128,553 |
| Changes in equity for 2015: | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | – | – | (7,580) | (7,580) |
| Other comprehensive income | – | – | – | – | – | – | 33,442 | – | – | 33,442 |
| Total comprehensive income | – | – | – | – | – | – | 33,442 | – | (7,580) | 25,862 |
| Recognition of equity-settled share based payments | – | – | – | – | – | 3,342 | – | – | – | 3,342 |
| | – | – | – | – | – | 3,342 | – | – | – | 3,342 |
| At 31 December 2015 | 171,897 | 2,264,928 | 255 | 55,238 | 50,024 | 3,342 | (555,332) | (8,220) | (824,375) | 1,157,757 |

# 29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

## (b) Share capital

| | Authorized | | Issued and fully paid | |
|---|---|---|---|---|
| | **Number of shares** | **Amount** RMB'000 | **Number of shares** | **Amount** RMB'000 |
| Ordinary shares of nominal value HK$0.10 each | | | | |
| – at 1 April 2014 | 5,000,000,000 | 520,000 | 939,319,694 | 92,317 |
| Issuance of new shares | – | – | 1,000,000,000 | 79,580 |
| – at 31 December 2014 and 2015 | 5,000,000,000 | 520,000 | 1,939,319,694 | 171,897 |

During the nine months ended 31 December 2014, THTF ES subscribed for an aggregate of 1,000,000,000 shares at the subscription price of HK$0.90 per share on 1 August 2014.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## (c) Dividends

The Company has not distributed any dividends during the year ended 31 December 2015 and nine months ended 31 December 2014.

## (d) Distributable reserves

At 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the company was RMB679,559,000 (2014: RMB575,852,000).

## 30 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a shareholders' written resolution passed on 20 November 2006 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees. The Scheme became effective on 15 December 2006 and the options issued pursuant to the Scheme will expire no later than ten years from the date of grant of the option. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services to the Company and for the purpose of rewarding their contribution to the long-term success of the Group by providing the opportunity to obtain ownership interest in the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the relevant time of grant, without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme shall not in aggregate exceed 20% of the shares in issue from time to time. No option may be granted under this Scheme and any other share option scheme of the Company if such limit is exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share in issue or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options may be exercised in accordance with the terms stipulated in the Scheme. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Subsequent to the Subscription (note 1), the Company made a mandatory offer to all the holders of the outstanding options at HK$0.0001 in cash for every option outstanding on 25 August 2014. The holders of the options are entitled to exercise or sell their options in full or in part within 21 days (i.e. 22 September 2014) after the mandatory offers are made. Otherwise, the right to exercise an option will be terminated immediately and the option will lapse accordingly. Upon the expiry date (i.e. 22 September 2014), no holder of the options exercised or sold their options and therefore all outstanding options were terminated and lapsed.

(Expressed in RMB unless otherwise indicated)

# 30 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

## (a) The terms and conditions of the grants are as follows:

| | Number of options | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Options granted to directors: | | | |
| – on 22 January 2010 | 192,000 | At grant | 8 years |
| – on 22 January 2010 | 192,000 | One year from the date of grant | 7 years |
| – on 22 January 2010 | 192,000 | Two years from the date of grant | 6 years |
| – on 22 January 2010 | 192,000 | Three years from the date of grant | 5 years |
| – on 22 January 2010 | 192,000 | Four years from the date of grant | 4 years |
| – on 14 December 2012 | 100,000 | At grant | 4 years |
| – on 14 December 2012 | 100,000 | One year from the date of grant | 3 years |
| – on 14 December 2012 | 100,000 | Two years from the date of grant | 2 years |
| – on 15 May 2015 | 5,900,000 | One year from the date of grant and meeting 2015 performance targets | 4 years |
| – on 15 May 2015 | 5,900,000 | Two years from the date of grant and meeting 2016 performance targets | 3 years |
| Options granted to employees: | | | |
| – on 15 February 2007 | 949,200 | At grant | 8 years |
| – on 15 February 2007 | 1,590,200 | One year from the date of grant | 7 years |
| – on 15 February 2007 | 1,143,533 | Two years from the date of grant | 6 years |
| – on 15 February 2007 | 1,143,533 | Three years from the date of grant | 5 years |
| – on 15 February 2007 | 1,143,534 | Four years from the date of grant | 4 years |
| – on 1 February 2008 | 575,800 | At grant | 8 years |
| – on 1 February 2008 | 236,425 | One year from the date of grant | 7 years |
| – on 1 February 2008 | 236,425 | Two years from the date of grant | 6 years |
| – on 1 February 2008 | 236,425 | Three years from the date of grant | 5 years |
| – on 1 February 2008 | 236,425 | Four years from the date of grant | 4 years |
| – on 29 February 2008 | 288,500 | At grant | 8 years |
| – on 29 February 2008 | 282,250 | One year from the date of grant | 7 years |
| – on 29 February 2008 | 282,250 | Two years from the date of grant | 6 years |
| – on 29 February 2008 | 282,250 | Three years from the date of grant | 5 years |
| – on 29 February 2008 | 282,250 | Four years from the date of grant | 4 years |
| – on 13 July 2009 | 1,582,000 | At grant | 8 years |

(Expressed in RMB unless otherwise indicated)

# 30 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

## (a) The terms and conditions of the grants are as follows: *(Continued)*

| | Number of options | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Options granted to employees: (Continued) | | | |
| – on 13 July 2009 | 1,582,000 | One year from the date of grant | 7 years |
| – on 13 July 2009 | 1,582,000 | Two years from the date of grant | 6 years |
| – on 13 July 2009 | 1,582,000 | Three years from the date of grant | 5 years |
| – on 13 July 2009 | 1,582,000 | Four years from the date of grant | 4 years |
| – on 22 January 2010 | 1,429,000 | At grant | 8 years |
| – on 22 January 2010 | 1,429,000 | One year from the date of grant | 7 years |
| – on 22 January 2010 | 1,429,000 | Two years from the date of grant | 6 years |
| – on 22 January 2010 | 1,429,000 | Three years from the date of grant | 5 years |
| – on 22 January 2010 | 1,429,000 | Four years from the date of grant | 4 years |
| – on 23 July 2010 | 210,000 | At grant | 8 years |
| – on 23 July 2010 | 210,000 | One year from the date of grant | 7 years |
| – on 23 July 2010 | 210,000 | Two years from the date of grant | 6 years |
| – on 23 July 2010 | 210,000 | Three years from the date of grant | 5 years |
| – on 23 July 2010 | 210,000 | Four years from the date of grant | 4 years |
| – on 19 August 2011 | 3,563,334 | At grant | 4 years |
| – on 19 August 2011 | 3,563,334 | One year from the date of grant | 3 years |
| – on 19 August 2011 | 3,563,332 | Two years from the date of grant | 2 years |
| – on 14 December 2012 | 3,491,000 | At grant | 4 years |
| – on 14 December 2012 | 3,491,000 | One year from the date of grant | 3 years |
| – on 14 December 2012 | 3,491,000 | Two years from the date of grant | 2 years |
| – on 15 May 2015 | 10,600,000 | One year from the date of grant and meeting 2015 performance targets | 4 years |
| – on 15 May 2015 | 10,600,000 | Two years from the date of grant and meeting 2016 performance targets | 3 years |
| Total share options granted | 80,437,000 | | |

(Expressed in RMB unless otherwise indicated)

# 30 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

## (b) The number and weighted average exercise prices of share options are as follows:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| Outstanding at the beginning of the period | – | – | HK$3.94 | 47,437,000 |
| Forfeited/lapsed during the period | – | – | HK$3.94 | (47,437,000) |
| Granted during the period | HK$1.31 | 33,000,000 | – | – |
| Outstanding at the end of the period | HK$1.31 | 33,000,000 | – | – |
| Exercisable at the end of the period | – | – | – | – |

The options outstanding at 31 December 2015 had an exercise price of HK$1.31 (2014:nil) and a weighted average remaining contractual life of 4.88 years (2014:nil).

## (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

| Fair value of share options and assumptions | Granted in May 2015 |
|---|---|
| Fair value at measurement date | |
| – Options granted with 1 year service | HK$0.27 |
| – Options granted with 2 years service | HK$0.33 |
| Share price | HK$1.31 |
| Exercise price | HK$1.31 |
| Expected volatility | 40.66% |
| Option life | 1.1-2.1 years |
| Expected dividends | 0% |
| Risk-free interest rate | 0.54% |

(Expressed in RMB unless otherwise indicated)

# 30 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

## (c) Fair value of share options and assumptions *(Continued)*

The expected volatility is based on the historic volatility of the share prices of the Company. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service and non-market performance condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

**(d)** During the year ended 31 December 2015, American Lighting, Inc.("ALI"), an indirect wholly-owned subsidiary of the Company, has adopted a share option scheme for eligible employees of ALI, the Company and Tivoli, LLC, the wholly-owned subsidiary of ALI ("Tivoli"). On 30 June 2015, 2,869 share options were granted to certain employees and directors of the Company, ALI, and Tivoli. The closing price immediately before the date on which the options were granted was US$330 per share. Under the scheme of ALI, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Options may be exercised in accordance with the terms stipulated in the scheme of ALI. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of the share options are as follows:

| | Number of options | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Options granted to directors: | | | |
| – on 30 June 2015 | 217 | One year from the date of grant | 9 years |
| – on 30 June 2015 | 217 | Two years from the date of grant | 8 years |
| – on 30 June 2015 | 292 | Three years from the date of grant | 7 years |
| Options granted to employees: | | | |
| – on 30 June 2015 | 642 | One year from the date of grant | 9 years |
| – on 30 June 2015 | 642 | Two years from the date of grant | 8 years |
| – on 30 June 2015 | 859 | Three years from the date of grant | 7 years |
| Total share options granted | 2,869 | | |

## 30 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

| | |
|---|---|
| Fair value at measurement date | US$121.08 |
| Share price | US$330 |
| Exercise price | US$330 |
| Expected volatility | 23.31% |
| Option life | 10 years |
| Expected dividends | 0% |
| Risk-free interest rate | 2.15% |

The expected volatility is based upon reference to 10 years analysis of the industrial stock price index. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service and non-market performance condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

## 31 OPERATING LEASE ARRANGEMENTS

### The Group as lessee

At the end of the year, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Within one year | **3,656** | 2,160 |
| In the second to fifth year inclusive | **13,196** | 5,151 |
| Over five years | **–** | 3,583 |
| | **16,852** | 10,894 |

Leases are negotiated for a period ranging from one to ten years and all rentals are fixed.

## 31 OPERATING LEASE ARRANGEMENTS *(Continued)*

### The Group as lessor

At the end of the year, the Group has contracted with tenants in respect of investment properties for the following future minimum lease payments:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| Within one year | 1,054 | 1,259 |
| In the second to fifth year inclusive | 1,635 | 2,122 |
| Over five years | 200 | 264 |
| | 2,889 | 3,645 |

## 32 CAPITAL COMMITMENTS

Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| – acquisition of property, plant and equipment | 4,556 | 13,022 |

## 33 RETIREMENT BENEFITS SCHEME

The employees of the PRC subsidiaries are members of the state-managed defined contribution retirement scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. Contribution to the scheme vest immediately.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to June 2014). Contributions to the plan vest immediately.

# 34 MATERIAL RELATED PARTY TRANSACTIONS

## (a) Transactions with the controlling shareholder and its subsidiaries

| | Year ended 31 December 2015 RMB'000 | Nine months ended 31 December 2014 RMB'000 |
|---|---|---|
| Sales of products | 27,411 | 4,960 |

## (b) Key management personnel remuneration

The Company's directors represented the Group's key management and their emoluments for the year ended 31 December 2015 are set out in note 11.

## (c) Transactions with other state-controlled entities in the PRC

The controlling shareholder of the Company, Tsinghua Tongfang is a state-controlled enterprise controlled by the PRC government. Apart from transactions with Tsinghua Tongfang and its subsidiaries which were disclosed in note 34(a) above, the Group also has transactions with other state-controlled entities, included but not limited to the following:

- sales of products and provision of services;
- purchase of materials; and
- bank deposits and borrowings.

## (d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of sales of products included in note 34(a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the reports of the directors.

# 35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | At 31 December 2015 RMB'000 | At 31 December 2014 RMB'000 |
|---|---|---|
| **Assets and liabilities** | | |
| Interests in subsidiaries | **656,416** | 569,524 |
| Cash and cash equivalents | **506,547** | 566,019 |
| Other current liabilities | **(5,206)** | (6,990) |
| **Net assets** | **1,157,757** | 1,128,553 |
| **Capital and reserves** | | |
| Share capital | **171,897** | 171,897 |
| Reserves | **985,860** | 956,656 |
| **Total equity** | **1,157,757** | 1,128,553 |

(Expressed in RMB unless otherwise indicated)

## 36 PRINCIPAL SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment | Particulars of issued and paid up capital/ registered capital | Proportion of ownership interest Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|---|
| THTF Lighting Group Limited | Incorporated | British Virgin Islands | USD1,000,000 | 100% | 100% | – | Investment holding |
| Neo-Neon Enterprises Limited | Incorporated | Hong Kong | 10,000 shares | 100% | – | 100% | Trading of lighting products |
| Mentle International Limited | Incorporated | Hong Kong | 2 shares | 100% | – | 100% | Trading of lighting products |
| Melrose Holdings Limited | Incorporated | Hong Kong | 10,000 shares | 100% | – | 100% | Investment holding |
| Billion Choice Trading Ltd. | Incorporated | British Virgin Islands | USD1 | 100% | – | 100% | Investment holding |
| Heshan Tongfang Lighting Technology Company Limited | Wholly foreign owned enterprise | PRC | USD300,000,000 | 100% | – | 100% | Manufacture and sales of lighting products |
| Neo-Neon LED Lighting International Limited | Incorporated | Samoa | USD10,000 | 100% | – | 100% | Trading of lighting products |
| Heshan Yinyu Illumination Co., Ltd. | Domestic Limited Liability Company | PRC | CNY50,000,000 | 100% | – | 100% | Manufacture and sales of lighting products |
| Neo-Neon (Vietnam) Development Company Limited | Incorporated | Vietnam | USD28,000,000 | 100% | – | 100% | Manufacture and sales of lighting products |
| YangZhou Tongfang Semiconductor Co., Ltd. | Wholly foreign owned enterprise | PRC | USD50,000,000 | 100% | – | 100% | Manufacture and sales of lighting products |
| American Lighting, Inc. | Incorporated | USA | USD7,944,505 | 100% | – | 100% | Trading of lighting products |
| Tivoli, LLC. | Partnership | USA | USD4,500,000 | 100% | – | 100% | Trading of lighting products |

(Expressed in RMB unless otherwise indicated)

## 37 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2015, the directors consider the immediate parent and ultimate controlling party of the Group to be THTF Energy-Saving Holdings Limited and Tsinghua Tongfang Co., Ltd, which are incorporated in the Cayman Islands and the PRC, respectively. THTF Energy-Saving Holdings Limited does not produce financial statements available for public use. Tsinghua Tongfang Co., Ltd is listed on the Shanghai Stock Exchange and produces financial statements in accordance with Accounting Standards of Business Enterprises which is available for public use.

## 38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Annual Improvements to HKFRSs 2012-2014 Cycle | 1 January 2016 |
| Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture | 1 January 2016 |
| Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations | 1 January 2016 |
| Amendments to HKAS 1, Disclosure initiative | 1 January 2016 |
| Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation | 1 January 2016 |
| HKFRS 15, Revenue from contracts with customers | 1 January 2017 |
| HKFRS 9, Financial instruments | 1 January 2018 |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

# DEFINITIONS

In this report, the following expressions shall have the following meanings unless the context requires otherwise:

| | |
|---|---|
| "2006 Share Option Scheme" | the share option scheme of the Company adopted by resolutions of the Shareholders on 20 November 2006 |
| "2016 Share Option Scheme" | the share option scheme proposed to be adopted by the Shareholders at the Shareholders' meeting |
| "AGM" | the annual general meeting of the Company to be convened and held at Unit 806-810, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on 13 May 2016 at 10:00 a.m., or where the context so admits, any adjournment thereof |
| "Articles of Association" or "Articles" | the articles of association of the Company adopted by the written resolution of the Shareholders on 20 November 2006 and as amended, supplemented and otherwise modified from time to time |
| "American Lighting" | means American Lighting, Inc., a Delaware corporation and an indirectly wholly-owned subsidiary of the Company |
| "associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Board" | the board of directors of the Company |
| "Business Day" or "business day" | a day on which banks in Hong Kong and Cayman Islands are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong or Cayman Islands |
| "BVI" | British Virgin Islands |
| "China" or "PRC" | the People's Republic of China, excluding for the purpose of the Prospectus, Hong Kong, Macau and Taiwan |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| "Company" | means Neo-Neon Holdings Limited (stock code: 1868), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange, and part of shares of which are listed on the Taiwan Stock Exchange as depositary receipts |
| "connected person(s)" | has the meaning ascribed thereto under the Listing Rules |
| "controlling shareholders" | has the meaning ascribed thereto in the Listing Rules |
| "Corporate Governance Code" | code on corporate governance practices contained in Appendix 14 to the Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "Group" | the Company and its subsidiaries |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange |

# DEFINITIONS

| | |
|---|---|
| "HK$" and "HK cents" | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| "Hong Kong" | The Hong Kong Special Administrative Region of the PRC |
| "Independent Third Party(ies)" | individual(s) or company(ies) who is/are not connected with (within the meaning of the Listing Rules) any of the Company, Directors, chief executive or substantial shareholders of the Company, our subsidiaries or any of their respective associates |
| "Model Code" | the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules |
| "Resuccess" | Resuccess Investments Limited, a company incorporated in the British Virgin Islands and which holds the entire capital of THTF ES |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time |
| "Share(s)" | means share(s) of HK$0.1 each in the share capital of the Company |
| "Shareholder(s)" | the shareholder(s) of the Company |
| "Shenzhen Tongfang Biddipper" | 深圳同方以衡基金管理有限公司 (Shenzhen Tongfang Bigdipper Fund Management Co., Ltd.*), a limited liability company established in the PRC on 25 July 2013 |
| "Subsidiary Share Incentive Plan" | means American Lighting's share incentive plan adopted by the Shareholders on 2 April 2015 |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiary(ies)" | has the meaning ascribed to it in the Listing Rules |
| "substantial shareholder(s)" | has the meaning ascribed thereto under the Listing Rules |
| "THTF ES" | THTF Energy Saving Holdings Limited, a substantial shareholder of the Company |
| "Tongfang Innovative" | 北京同方創新投資有限公司 (Beijing Tongfang Innovative Investment Co., Ltd.*), a limited liability company established in the PRC on 7 May 1999 |
| "Tsinghua Tongfang" | 同方股份有限公司 (Tsinghua Tongfang Co., Ltd*), a joint stock limited company incorporated in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (stock code: 600100) |
| "Tsinghua Tongfang Group" | Tsinghua Tongfang and its subsidiaries (for the purpose of this report, excluding the Group) |
| "%" | percent. |