NEO-NEON HOLDINGS LIMITED

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

清华同方
TSINGHUA TONGFANG

2016
ANNUAL REPORT

Professional LED product research, development and production.

We Color the World

Lighting is our business, Color is our concern

www.neo-neon.com

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. Seah Han Leong

Non-executive Directors

Mr. Huang Yu *(Chairman)*
Mr. Wang Liang Hai
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. Huang Yu
Mr. Fan Ren Da Anthony
Ms. Li Ming Qi

NOMINATION COMMITTEE

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

RISK MANAGEMENT AND REGULATORY COMPLIANCE COMMITTEE

Mr. Fan Ren Da Anthony *(Chairman)*
Mr. Huang Yu
Mr. Seah Han Leong
Mr. Wang Liang Hai
Mr. Liu Wei Dong
Mr. Liu Tian Min
Ms. Li Ming Qi

AUTHORIZED REPRESENTATIVES

Mr. Seah Han Leong
Mr. Leung Lok Wai

COMPANY SECRETARY

Mr. Leung Lok Wai

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

Luk & Partners
Unit 2001, Level 20
One International Finance Centre
1 Harbour View Street, 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 2016.

The year 2016 is a year of intensive adjustment for the development of the LED industry. On one hand, various new technologies, new products and new application methods are ever-emerging, building a strong foundation and providing expansive market opportunities for the future development of the LED industry. On the other hand, the LED industry is gradually approaching the mature stage and the competition is fierce.

In 2016, while maintaining an appropriate growth in sales, the Group also focused on market segmentation and specialisation, and continued to optimise its product mix and customer structure. In the current year, the Group applied the DMX light and sound control technology and set up a LED-decorated light show based on the theme "Christmas Fantasy by the Ocean" in Chimelong Ocean Kingdom in Zhuhai, achieving many firsts in the field of LED decorative lights. The Group's innovative product Trulux LED tape light system was crowned the Grand Prize Winner of 2016 Lighting for Tomorrow in the USA for its dynamic flexibility, high degree of comfort and ease of operation. In the current year, through the efforts of all our employees, the Group's profitability was further enhanced and a turn from loss into profit was achieved for the first time since 2011.

In light of the Copenhagen Accord, the Kyoto Protocol and the Comprehensive Working Plan for Energy Conservation and Emission Reduction under the 13th Five Year Plan issued by the State Council of the PRC, promoting the use of energy-conserving lighting products is an inevitable global trend. This presents a business opportunity for the Group. In 2017, the Group will continue to promote and deepen institutional reform and strive towards developing smart city lighting projects based on green and intelligent lighting (including LED decorative lights) with smart homes as the platform. The Group will also accelerate the development of products towards digitalisation and informatisation, increase efforts on the management of non-operating assets, as well as strengthening the management of the function system and internal control system. The Group will implement a diversity policy and expand its business into the financial services industry in order to enhance shareholder value.

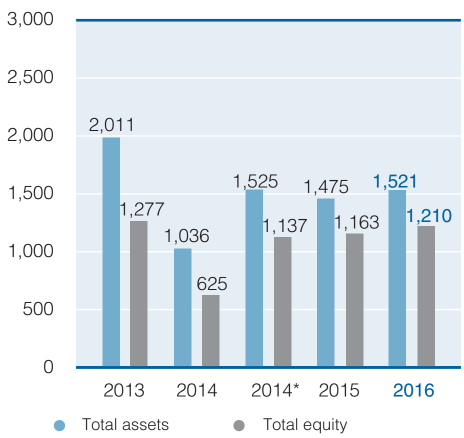
Finally, on behalf of the Board of Directors of Neo-Neon, I would like to express my heartfelt gratitude to all our employees for their efforts and contributions, to our customers and business partners for their strong support as well as to our shareholders for their trust. We have strived all along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

Huang Yu
Chairman
13 March 2017

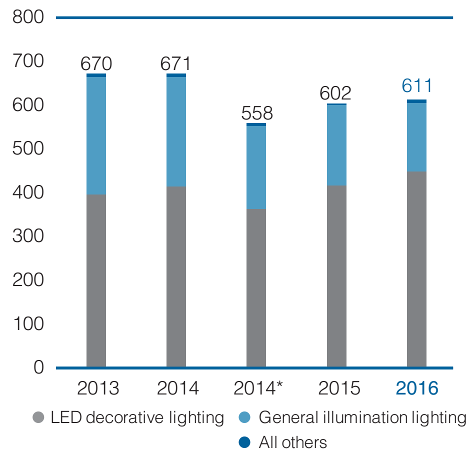
FINANCIAL HIGHLIGHTS

Expressed in RMB million	Year ended 31 March 2013	Year ended 31 March 2014	Year ended 31 December 2014*	Year ended 31 December 2015	Year ended 31 December 2016
Turnover	670	671	558	602	**611**
Gross profit (loss)	80	(195)	48	167	**189**
Profit (loss) attributable to owners of the Company	(500)	(659)	(196)	6	**12**
EBITA	(349)	(581)	(162)	46	**58**
Total assets	2,011	1,036	1,525	1,475	**1,521**
Total equity	1,277	625	1,137	1,163	**1,210**
Gross profit (loss) margin	11.9%	(29.0%)	8.7%	27.8%	**30.8%**
Net profit (loss) margin	(74.6%)	(98.2%)	(35.1%)	1.0%	**1.9%**
EPS (Loss) – basic (RMB cents)	(53.2)	(70.2)	(13.1)	0.3	**0.6**

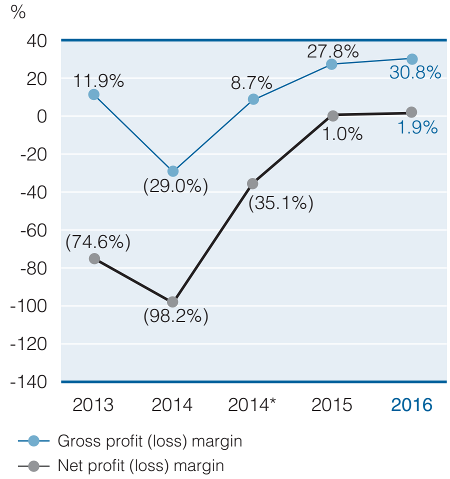
Total assets/Total equity
RMB M



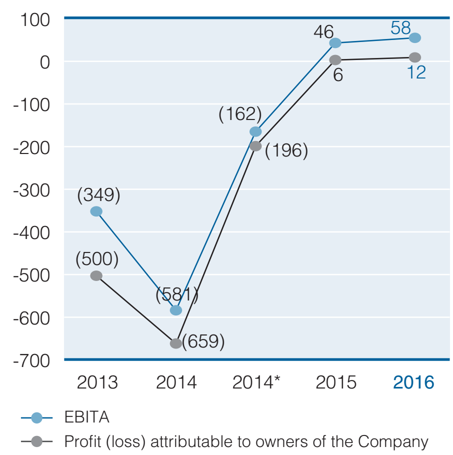
Turnover
RMB M



Gross and net profit (loss) margin
%



EBITA and (loss) profit attributable to owners of the Company
RMB M



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

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTOR

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.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yu (黃俞)

Mr. Huang Yu (黃俞), aged 48, was appointed as a non-executive Director and the chairman of the Board of the Company on 15 July 2016. He holds a master degree from the University of Greenwich. He is also (i) the chairman of the board of directors of Shenzhen Huakong Seg Co., Ltd.* (深圳華控賽格股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000068), (ii) the senior vice president of Tsinghua Holdings Co., Ltd.* (清華控股有限公司), (iii) an executive director of Shenzhen Aorongxin Investment Development Co., Ltd.* (深圳市奧融信投資發展有限公司), (iv) the chairman of the supervisory committee of Penghua Fund Management Co., Ltd.* (鵬華基金管理有限公司), (v) the vice chairman of the board of directors and the chief executive officer of Tongfang Co., Ltd.* (同方股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600100) and a controlling shareholder of the Company, (vi) the chairman of the board of directors and an executive director of Allied Cement Holdings Limited (聯合水泥控股有限公司) (proposed to be renamed as Tongfang Kontafarma Holdings Limited (同方康泰產業集團有限公司)), a company listed on the Stock Exchange (stock code: 1312) and (vii) a non-executive director and the chairman of the board of directors of Technovator International Limited (同方泰德國際科技有限公司), a company listed on the Stock Exchange (stock code: 1206).

Mr. Wang Liang Hai (王良海)

Mr. Wang Liang Hai (王良海), aged 52, 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. Liu Wei Dong (劉衛東)

Mr. Liu Wei Dong (劉衛東), aged 54, 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 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 55, 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 49, 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. Fu Kai (付凱)

Mr. Fu Kai (付凱), aged 42, is the chief financial officer and chief accountant of the Company. Mr. Fu was awarded a bachelor degree in Accountancy. He is also a Certified Tax Agent and an accountant. 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. Jang Jann Huan (張震寰)

Mr. Jang Jann Huan (張震寰), aged 63, 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 Hui Lai (徐惠來)

Mr. Xu Hui Lai (徐惠來), aged 45, 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. Leung Lok Wai (梁樂偉)

Mr. Leung Lok Wai (梁樂偉), aged 41, is the company secretary of the Company. He joined the Group in March 2016. Mr. Leung received his Bachelor's degree in accountancy from the Hong Kong Polytechnic University in December 1999. He is a member of Hong Kong Institute of Certified Public Accountants and a member of the Institute of Internal Auditors. He has over 15 years of experience in accounting, audit, due diligence and financial management, including transaction services in PricewaterhouseCoopers, group internal audit in Swire Group and audit assurance services in KPMG.

FINANCIAL REVIEW

Revenue

The revenue for the year ended 31 December 2016 was approximately RMB611.2 million, as compared to approximately RMB602.4 million for the year ended 31 December 2015, which remained stable, mainly attributable to the selective acceptance of orders (during the year, the Group continued to take a prudent approaching in dealing with orders by selecting the orders with relatively higher gross profit margin).

Cost of goods sold

For the year ended 31 December 2016, the cost of goods sold was approximately RMB422.7 million, representing a decrease of approximately RMB12.5 million over approximately RMB435.2 million for the year ended 31 December 2015.

Gross profit and gross profit margin

For the year ended 31 December 2016, the Group recorded a gross profit of approximately RMB188.5 million, representing an improvement as compared with the gross profit of approximately RMB167.3 million for the year ended 31 December 2015.

The Group recorded a gross profit margin of approximately 30.8% for the year ended 31 December 2016, representing an increase of 3.0% over a gross profit margin of approximately 27.8% for the year ended 31 December 2015, primarily due to (1) the selective acceptance of orders (during the year, the Group continued to take a prudent approaching to sales by selecting the orders with relatively higher profit margin), and (2) a decrease in manufacturing expenses by approximately RMB9.3 million, mainly comprised of staff salaries, depreciation costs and utility charges.

Other gains, losses and expenses

For the year ended 31 December 2016, the Group recorded other gains of approximately RMB28.1 million, representing a decrease of approximately RMB35.4 million over other gains of RMB63.5 million for the year ended 31 December 2015, due to (1) the Group did not sales of work shops and land use right for the year ended 31 December 2016, as compared to RMB27.4 million resulting from gains on disposal 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, for the year ended 31 December 2015, (2) the net reversal of allowance for bad debt amounting to RMB5.2 million for the year, as compared to the net reversal of allowance for bad debt amounting to RMB13.9 million for the year ended 31 December 2015.

Impairment loss of property, plant and equipment

As at 31 December 2016, the amount of impairment losses recognised in respect of property, plant and equipment was nil (31 December 2015: nil).

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 2016, the distribution and selling expenses of the Group were approximately RMB97.4 million, representing an increase of approximately RMB8.9 million or 10.1% over approximately RMB88.5 million for the year ended 31 December 2015, mainly due to the increase in staff costs for approximately RMB15.5 million.

The administrative expenses were mainly comprised of staff costs, directors remuneration, depreciation charges, professional and legal fee and share option related expenses. The administrative expenses for the year ended 31 December 2016 were approximately RMB107.6 million, representing a decrease of approximately RMB28.0 million or 20.6% over approximately RMB135.6 million for the year ended 31 December 2015, mainly due to (1) the decrease in other administrative expenses for approximately RMB12.4 million, (2) the decrease in staff costs for approximately RMB7.0 million, and (3) the decrease in professional fee for approximately RMB6.4 million.

Finance costs

The finance costs for the year ended 31 December 2016 were approximately RMB3.9 million, representing an increase of approximately RMB1.2 million over RMB2.7 million for the year ended 31 December 2015, mainly due to the bank borrowings of RMB111.0 million as at 31 December 2016, representing a increase of RMB15.9 million, as compared to that of RMB95.1 million as at 31 December 2015.

Taxation

For the year ended 31 December 2016, the Group's tax charge of RMB7.1 million (the year ended 31 December 2015: RMB5.0 million) mainly included taxation imposed in overseas jurisdictions of approximately RMB15.3 million and deferred taxation of approximately RMB8.2 million.

Profit attributable to owners of the Company

For year ended 31 December 2016, the Group recorded a profit attributable to owners of the Company of RMB11.8 million, as compared to a profit attributable to owners of the Company of RMB5.8 million for the year ended 31 December 2015. Such improvement was mainly attributable to an increase in gross profit of RMB21.2 million due to selective acceptance of orders with relatively higher gross profit margin.

Net profit

For year ended 31 December 2016, the Group recorded a net profit of RMB11.7 million, as compared to RMB4.5 million for the year ended 31 December 2015. Such improvement was mainly attributable to (1) the increase in gross profit margin mainly resulting from the Group's selective acceptance of orders with relatively higher profit margin, and (2) the decrease in operating expenses for the year ended 31 December 2016.

Financial Resources and Liquidity and Gearing Ratio

The Group maintained a stable financial position. As at 31 December 2016, the Group had cash and cash equivalents of RMB647.4 million and short-term bank loans of RMB111.0 million. The gearing ratio representing the ratio of short-term bank loans to total equity of the Group was 9.2% as at 31 December 2016 (31 December 2015: 8.2%). Such increase was mainly caused by the increase in bank borrowings of RMB15.9 million for the year against the year of 2015.

Cash flows

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

The Group recorded (1) cash inflow from operating activities of approximately RMB4.9 million (the year ended 31 December 2015: cash outflow of approximately RMB44.7 million) for the year ended 31 December 2016, (2) cash outflow from investing activities of approximately RMB13.1 million (the year ended 31 December 2015: RMB25.4 million) for the year ended 31 December 2016, and (3) cash inflow from financing activities of approximately RMB4.6 million (the year ended 31 December 2015: cash outflow of approximately RMB24.9 million) for year ended 31 December 2016.

The above increase in cash inflow from operating activities was mainly attributable to the improvement of operating performance which contributed by the increased gross profit and the decrease in inventories of approximately RMB28.9 million.

The above decrease in cash outflow from investing activities was mainly attributable to release of restricted bank deposits of approximately RMB20.4 million.

The above increase in cash inflow from financing activities was mainly attributable to new bank loans of approximately RMB94.8 million and repayment of bank loans of approximately RMB85.0 million in the year of 2016.

Assets and liabilities

As at 31 December 2016, the Group recorded the total assets of approximately RMB1,521.4 million (31 December 2015: RMB1,475.0 million) and total liabilities of approximately RMB311.5 million (31 December 2015: RMB311.5 million).

As at 31 December 2016 the Group's current assets and non-current assets were approximately RMB1,166.3 million (31 December 2015: RMB1,048.1 million) and approximately RMB355.1 million (31 December 2015: RMB426.9 million) respectively. The decrease in non-current assets was mainly attributable to reclassify the non-current assets to assets held for sales.

As at 31 December 2016, the Group's current liabilities and non-current liabilities were approximately RMB295.8 million (31 December 2015: RMB293.6 million) and approximately RMB15.7 million (31 December 2015: RMB17.9 million) respectively. The decrease in current liabilities was mainly attributable to the decrease of bills payable which was well managed and monitored to ensure a sufficient credit facilities of the Group.

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 2016, the Group did not pledge any of its land and buildings (31 December 2015: RMB20.1 million). The Group pledged certain of its trade receivables and inventories with an aggregate carrying value of approximately RMB78.5 million (31 December 2015: RMB51.4 million), and also bank deposits of aggregate carrying value of RMB27.7 million (31 December 2015: RMB20.4 million) to secure bank credit facilities granted to the Group.

Capital Commitments

As at 31 December 2016, 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 RMB1.8 million (31 December 2015: RMB4.6 million).

Contingent Liabilities

During the year ended 31 December 2016, 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 2016, the issued share capital of the Company was RMB171,808,087 (equivalent to HK$193,831,969) (31 December 2015: RMB171,896,724 (equivalent to HK$193,931,969)), divided into 1,938,319,694 ordinary shares of HK$0.10 each.

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT

On 29 August 2016, the Company and Vast Stone Limited entered into a sales and purchase agreement (the "Agreement"), pursuant to which the Company (or its designated nominee) has conditionally agreed to acquire and Vast Stone Limited has conditionally agreed to sell the entire issued share capital of Buttonwood Finance Limited at the consideration of HK$179,000,000. The total consideration shall be settled by the Company by allotting and issuing an aggregate of 177,227,723 new ordinary Shares at the issue price of HK$1.01 per ordinary Share to Vast Stone Limited upon the completion.

Buttonwood Finance Limited is a company incorporated in Hong Kong with limited liability and is principally engaged in provision of asset management services, investment advisory services and securities trading. As at 31 December 2016, Buttonwood Finance Limited is authorised to be a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and is licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

All the conditions precedent to the Agreement have been fulfilled and the completion of the acquisition took place on 20 January 2017 in accordance with the terms and conditions of the Agreement. An aggregate of 177,227,723 new ordinary Shares have been allotted and issued to Vast Stone Limited at the issue price of HK$1.01 per ordinary Share pursuant to the Agreement.

Following the completion, Buttonwood Finance Limited became a wholly-owned subsidiary of the Company. The acquisition constitutes a disclosable transaction for the Company under Chapter 14 of the Listing Rules. For further details, please refer to the announcements of the Company dated 29 August 2016 and 20 January 2017.

Save as disclosed above, there were no other 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 report.

Final Dividend

The Board resolved not to declare any dividend for the year ended 31 December 2016 (year ended 31 December 2015: 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 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 2016, the Group's total number of employees was approximately 1,500 (31 December 2015: 2,800). 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. The acquisition of the Buttonwood Finance Limited is consistent with the development strategy of the Company to diversify the business and it will enable the Group to expand its business into the financial services industry.

DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31 December 2016.

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 2016 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 2016 are set out in note 36 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the "Consolidated Statement of Comprehensive Income" on page 59 of this annual report. The Board resolved not to declare any dividend for the year ended 31 December 2016 (31 December 2015: nil).

ANNUAL GENERAL MEETING

The AGM of the Company will be held in Hong Kong on 20 June 2017. Notice of the AGM 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 AGM of the Company to be held on Tuesday, 20 June 2017, the register of members of the Company will be closed from Wednesday, 14 June 2017 to Tuesday, 20 June 2017, 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 branch 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, 13 June 2017. The record date for the entitlement to attend the annual general meeting will be on Tuesday, 20 June 2017.

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the Group's property, plant and equipment are set out in note 14 to the consolidated financial statements. Movements during the year in the Group's investment properties are set out in note 13 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 28 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 2016, the aggregate amount of reserves available for distribution to equity shareholders of the company was RMB725,871,000.

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 Director

Mr. Seah Han Leong

Non-executive Directors

Mr. Huang Yu *(Chairman)*
Mr. Wang Liang Hai
Mr. Liu Wei Dong

Independent Non-executive Directors

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

The updated information of the Director and senior management is set out on page 6 to page 8 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 and the 2016 Share Option Scheme and the Subsidiary Share Incentive Plan, 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 2016 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 2016, 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 2016	Percentage of total issued share capital as at 31 December 2016
Mr. Seah Han Leong(1)	Beneficial owner	1,500,000	0.08%
Mr. Wang Liang Hai(2)	Beneficial owner	1,500,000	0.08%
Mr. Liu Wei Dong(3)	Beneficial owner	1,000,000	0.05%
Mr. Fan, Ren Da Anthony(4)	Beneficial owner	600,000	0.03%
Mr. Liu Tian Min(5)	Beneficial owner	600,000	0.03%
Ms. Li Ming Qi(6)	Beneficial owner	600,000	0.03%

Notes:

(1) 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 under the 2006 Share Option Scheme.

(2) 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 under the 2006 Share Option Scheme.

(3) 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 under the 2006 Share Option Scheme.

(4) 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 under the 2006 Share Option Scheme.

(5) 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 under the 2006 Share Option Scheme.

(6) 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 under the 2006 Share Option Scheme.

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

American Lighting

Name	Capacity	Number of Ordinary Shares as at 31 December 2016	Percentage of total issued share capital as at 31 December 2016
Mr. Seah Han Leong[1]	Beneficial owner	363	0.99%

Note:

(1) Mr. Seah Han Leong is deemed to be interested in 363 common stocks of American Lighting 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 2016, 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 2016, 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 2016	Percentage of total issued share capital as at 31 December 2016
THTF ES[1]	Beneficial owner	1,348,360,690	69.52%
Resuccess[1][2]	Interest of controlled corporation, beneficial owner	1,351,298,690	69.68%
Tsinghua Tongfang[1][2]	Interest of controlled corporation	1,351,298,690	69.68%

Notes:

(1) Resuccess Investments Limited ("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 1,348,360,690 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.

Save as mentioned above, as at 31 December 2016, 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 2016 are set out in note 33 to the financial statements.

One-off Connected Transactions

Equity Transfer Agreements

On 31 October 2016, Billion Choice Trading Limited ("Billion Choice"), which is wholly owned by the Company, entered into an equity transfer agreement (the "Yangzhou Tongfang Equity Transfer Agreement") with Yangzhou Tongfang Semiconductor Co., Ltd.* (揚州同方半導體有限公司) ("Yangzhou Tongfang") and Tongfang Science and Technology Park Co., Ltd.* (同方科技園有限公司) ("Tongfang Technology Park"), pursuant to which Billion Choice agreed to transfer all its 100% equity transfer in Yangzhou Tongfang to Tongfang Technology Park. The consideration of the Yangzhou Tongfang Equity Transfer Agreement is RMB232,589,900, with reference to the valuation of Yangzhou Tongfang as of 31 May 2016.

On 31 October 2016, Neo-Neon China Limited ("Neo-Neon China"), which is wholly owned by the Company, entered into an equity transfer agreement (the "Shanghai Cuineng Equity Transfer Agreement") with Shanghai Cuineng Photoelectricity Science and Technology Co., Ltd.* (上海翠能光電科技有限公司) ("Shanghai Cuineng") and Tongfang Technology Park, pursuant to which Neo-Neon China agreed to transfer all its 100% equity transfer in Shanghai Cuineng to Tongfang Technology Park. The consideration of the Shanghai Cuineng Equity Transfer Agreement is RMB15,723,400, with reference to the valuation of Shanghai Cuineng as of 31 May 2016.

On 31 October 2016, Billion Choice entered into an equity transfer agreement (the "Tianjin Zhenmingli Equity Transfer Agreement", together with the Yangzhou Tongfang Equity Transfer Agreement and the Shanghai Cuineng Equity Transfer Agreement, the "Equity Transfer Agreements") with Tianjin Zhenmingli Photoelectricity Co., Ltd.* (天津真明麗光電有限公司) ("Tianjin Zhenmingli") and Tongfang Technology Park, pursuant to which Billion Choice agreed to transfer all its 100% equity transfer in Tianjin Zhenmingli to Tongfang Technology Park. The consideration of the Tianjin Zhenmingli Equity Transfer Agreement is RMB3,354,900, with reference to the valuation of Tianjin Zhenmingli as of 31 May 2016.

As at the date of the Equity Transfer Agreements and 31 December 2016, 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 69.68% 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 Technology Park is also a connected person of the Company. Accordingly, the transaction under the Equity Transfer Agreement constitutes a connected transaction.

Since (1) the Equity Transfer Agreements were entered into on the same date, (2) the Equity Transfer Agreements were entered into by subsidiaries of the Company, as the sellers, and the same subsidiary of Tsinghua Tongfang, as the buyer, and (3) all of the Equity Transfer Agreements served the same purpose of streamlining the assets of the Group, the transactions under the Equity Transfer Agreements shall be aggregated pursuant to Rule 14.22 or Rule 14A.81 of the Listing Rules.

As one or more of the applicable percentage ratios as calculated in accordance with Chapter 14 of the Listing Rules in respect of the Equity Transfer Agreements, on an aggregate basis, are expected to exceed 5% but less than 25% and the total consideration under the Equity Transfer Agreements exceeds HK$10,000,000, the disposal of three subsidiaries contemplated under the Equity Transfer Agreements would constitute a discloseable transaction under Chapter 14 of the Listing Rules and a connected transaction subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Yangzhou Tongfang, Shanghai Cuineng and Tianjin Zhenmingli holds certain idle assets. While Yangzhou Tongfang is mainly engaged in the manufacturing of epitaxial wafers, the majority of the sales of Yangzhou Tongfang are attributable to Tsinghua Tongfang or its subsidiaries. The Company would not continue with the manufacturing of the epitaxial wafers after the completion of the disposal of Yangzhou Tongfang. The Board considers that the disposal of these entities would not affect the production of the Group considering their financial status and their contribution to the Group, and can streamline its manufacturing resources, realise cash and unlock investment value of the assets at fair market value. 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.

The Equity Transfer Agreements were completed on February 2017.

Further details of the Equity Transfer Agreements are set out the announcement of the Company dated 31 October 2016 and the circular of the Company dated 28 November 2016.

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 2016, the aggregate transactions under the sales by the Group to Tsinghua Tongfang was approximately RMB8,443,000, which was within the cap of approximately RMB185,403,000 under the Master Sales Agreement.

As at 31 December 2016, 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 69.68% 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 2016.

EQUITY-LINKED AGREEMENTS

On 29 August 2016, the Company and Vast Stone Limited entered into a sales and purchase agreement (the "Agreement"), pursuant to which the Company (or its designated nominee) has conditionally agreed to acquire and Vast Stone Limited has conditionally agreed to sell the entire issued share capital of Buttonwood Finance Limited at the consideration of HK$179,000,000. The total consideration shall be settled by the Company by allotting and issuing an aggregate of 177,227,723 new ordinary Shares at the issue price of HK$1.01 per ordinary Share to Vast Stone Limited upon the completion.

Buttonwood Finance Limited is a company incorporated in Hong Kong with limited liability and is principally engaged in provision of asset management services, investment advisory services and securities trading. As at 31 December 2016, Buttonwood Finance Limited is authorised to be a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and is licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

All the conditions precedent to the Agreement have been fulfilled and the completion of the acquisition took place on 20 January 2017 in accordance with the terms and conditions of the Agreement. An aggregate of 177,227,723 new ordinary Shares have been allotted and issued to Vast Stone Limited on 20 January 2017 at the issue price of HK$1.01 per ordinary Share pursuant to the Agreement.

Following the completion on 20 January 2017, Buttonwood Finance Limited became a wholly-owned subsidiary of the Company. The acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. For further details, please refer to the announcements of the Company dated 29 August 2016 and 20 January 2017.

Save as disclosed herein and in the sections headed “Share Option Scheme”, as at the end of and during the year ended 31 December 2016, the Company did not enter into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

SHARE OPTION SCHEME

The 2006 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).

Upon the adoption of the 2016 Share Option Scheme on 13 May 2016, the 2006 Share Option Scheme be terminated and no further share options can be granted under the 2006 Share Option Scheme.

As at the date of this annual report, a total of 33,000,000 Shares (representing 1.6% 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 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 2016 are set forth as below.

Category of participants	Date of grant[1]	Exercise price per share (HK$)	Outstanding at 1 January 2016	Granted during the year	Exercise during the year	Forfeited/ Lapsed during the year	Outstanding at 31 December 2016
Directors							
Mr. Seah Han Leong	15 May 2015	1.31	1,500,000	–	–	–	1,500,000
Mr. Wang Liang Hai	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
Mr. Pan Jin[2]	15 May 2015	1.31	1,500,000	–	–	–	1,500,000
Mr. Ben Fan[3]	15 May 2015	1.31	1,500,000	–	–	(1,500,000)	–
Ms. Li Ming Qi	15 May 2015	1.31	600,000	–	–	–	600,000
Employees	15 May 2015	1.31	24,200,000	–	–	(7,900,000)	16,300,000

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. Pan Jin ceased to be an executive Director on 15 July 2016.

(3) Mr. Ben Fan ceased to be 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 2016.

The 2016 Share Option Scheme

The Company has adopted the 2016 Share Option Scheme since on 13 May 2016 for the primary purpose of to motivate eligible persons (as defined in the 2016 Share Option Scheme) to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executive (as defined in the 2016 Share Option Scheme), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons include any of the following persons: (a) an Executive, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group or of an Eligible Entity (as defined in the 2016 Share Option Scheme); (b) a director or proposed director (including an independent non-executive director) of any member of the Group or of an Eligible Entity; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group or of an Eligible Entity; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group or of an Eligible Entity; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group or of an Eligible Entity; and (g) an associate of any of the foregoing persons.

The maximum number of shares which may be issued upon the exercise of all the options to be granted under the 2016 Share Option Scheme was 193,931,969, representing approximately 10% of the total number of Shares in issue as at the date of the adoption and representing 9.17% of the issued share capital of the Company as at the date of this annual report.

No option may be granted to any participant of the 2016 Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the 2016 Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the 2016 Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a share;

(b) the closing price of a share as stated in the Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

The 2016 Share Option Scheme shall be valid and effective for a period of 10 years from the adoption date, after which no further options will be granted or offered.

As at the date of this annual report, a total of 193,931,969 Shares (representing 9.17% 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 2016 Share Option Scheme.

Since the adoption of the 2016 Share Option Scheme, no share options have been granted.

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[1]	Exercise price per share (US$)	Outstanding at 1 January 2016	Granted during the year	Exercise during the year	Forfeited/ Lapsed during the year	Outstanding at 31 December 2016
Directors							
Mr. Seah Han Leong	30 June 2015	330	363	–	–	–	**363**
Mr. Pan Jin[2]	30 June 2015	330	363	–	–	–	**363**
Employees	30 June 2015	330	2,143	–	–	(275)	**1,868**

Notes:

(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.

(2) Mr. Pan Jin ceased to be a director of American Lighting on 31 May 2016 and an executive Director of the Company on 15 July 2016.

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 29 to the financial statements.

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

During the year ended 31 December 2016, the Company repurchased its own shares on the Stock Exchange, details of which are as follows:

Date	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate consideration paid
15 September 2016	1,000,000	HK$1.10	HK$1.04	HK$1,068,660

The repurchased shares were cancelled in February 2017.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

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 2016.

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 33 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 2016, the largest supplier accounted for 1.3% of the Group's purchases and the five largest suppliers accounted for 5.0% of the Group's total purchases. The largest customer accounted for 2.8% of the Group's total revenue and the five largest customers accounted for 8.6% 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 33 to 44 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. 2016 Share Option Scheme and Subsidiary Share Option Scheme

The Company adopted the 2016 Share Option Scheme and the Subsidiary Share Incentive Plan on 13 May 2016 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 2016.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2016 are set out in note 25 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 2016 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 2016 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.

On behalf of the Board

Huang Yu
Chairman
13 March 2017

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 organisation which is open and accountable to the Shareholders.

Throughout the year ended 31 December 2016, 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; and

– 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 seven Directors, consisting of one executive Director, Mr. Seah Han Leong, three non-executive Directors, Mr. Huang Yu (the Chairman of the Board), Mr. Wang Liang Hai and 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. The 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 scrutinising 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 2016.

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 2016:

	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. Seah Han Leong	✓	✓	✓	✓
Mr. Fan Xin (resigned on 15 July 2016)	✓	✓	✓	✓
Mr. Pan Jin (resigned on 15 July 2016)	✓	✓	✓	✓
Mr. Ben Fan (resigned on 20 January 2016)	✓	✓	✓	✓
Non-executive Directors				
Mr. Huang Yu (appointed on 15 July 2016)	✓	✓	✓	✓
Mr. Wang Liang Hai	✓	✓	✓	✓
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 2016 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 2016 is set out below:

Name of Director	Attendance/Number of Board Meeting(s)	Attendance/Number of General Meeting(s)
Executive Directors		
Mr. Seah Han Leong	6/6	2/2
Mr. Fan Xin (resigned on 15 July 2016)	4/6	1/2
Mr. Pan Jin (resigned on 15 July 2016)	3/6	0/2
Mr. Ben Fan (resigned on 20 January 2016)	1/6	0/2
Non-executive Directors		
Mr. Huang Yu (appointed on 15 July 2016)	1/6	0/2
Mr. Wang Liang Hai	5/6	0/2
Mr. Liu Wei Dong	4/6	0/2
Independent non-executive Directors		
Mr. Fan Ren Da Anthony	6/6	1/2
Mr. Liu Tian Min	5/6	0/2
Ms. Li Ming Qi	6/6	2/2

Appointments, Re-election and Removal of Directors

Mr. Seah Han Leong, being the 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 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.

Mr. Huang Yu, Mr. Wang Liang Hai and Mr. Liu Wei Dong, each being a non-executive Director of the Company, has entered into a service contract with the Company for a specific term of three years commencing from 15 July 2016, 15 July 2016 and 25 August 2014, respectively, 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 2016, 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) and Article 87(2) of the Articles of Association, Mr. Wang Liang Hai, Mr. Liu Wei Dong and Mr. Fan Ren Da Anthony 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. Huang Yu will retire at the AGM and, being eligible, will offer himself for reelections 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 2016 and the audited annual results for the year ended 31 December 2016, 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 risk management and internal control systems of the Group during the year ended 31 December 2016.

During the year ended 31 December 2016, 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	1/2

Remuneration Committee

The Company established a remuneration committee on with written terms of reference. The remuneration committee comprises of four members, namely, Mr. Huang Yu, an non-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 2016, the remuneration committee reviewed the remuneration packages of the Directors and the senior management.

During the year ended 31 December 2016, three 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	1/2
Mr. Huang Yu(1)	0/2
Mr. Fan Ren Da Anthony	2/2
Ms. Li Ming Qi	2/2
Mr. Fan Xin(1)	2/2

Note:

(1) Mr. Fan Xin resigned as a member of the remuneration committee on 15 July 2016 and Mr. Huang Yu 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. Huang Yu, an non-executive Director and three independent non-executive Directors, Mr. Fan Ren Da Anthony, Mr. Liu Tian Min and Ms. Li Ming Qi. Mr. Huang Yu 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 2016.

During the year ended 31 December 2016, 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. Huang Yu[(1)]	0/2
Mr. Liu Tian Min	1/2
Mr. Fan Ren Da Anthony	2/2
Ms. Li Ming Qi	2/2
Mr. Fan Xin[(1)]	2/2

Note:

(1) Mr. Fan Xin resigned as a member and the chairman of the nomination committee on 15 July 2016 and Mr. Huang Yu 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 seven 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 2016, 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 2016, one meeting was held by the risk management and regulatory compliance committee.

Name of Director	Attendance/Number of Committee Meeting(s)
Mr. Fan Ren Da Anthony	1/1
Mr. Seah Han Leong	1/1
Mr. Huang Yu[(1)]	0/1
Mr. Wang Liang Hai	1/1
Mr. Liu Tian Min	0/1
Ms. Li Ming Qi	1/1
Mr. Fan Xin[(1)]	1/1
Mr. Pan Jin[(1)]	1/1

Note:

(1) Each of Mr. Fan Xin and Mr. Pan Jin resigned as a member of the risk management and regulatory compliance committee on 15 July 2016 and Mr. Huang Yu was appointed as a member of the risk management and regulatory compliance committee on the same date.

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 2016, 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 authorised 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 2016 are as follows.

	RMB'000
Audit services	3,627
Non-audit services	221
Total	**3,848**

INTERNAL CONTROL AND RISK MANAGEMENT

The Board recognises its overall responsibility for maintaining adequate systems of internal control and risk management of the Company and reviewing their effectiveness on an ongoing basis. The Board is committed to implementing an effective and sound internal control and risk management to safeguard the interest of Shareholders and the Company's assets. In addition, the audit committee also has the responsibility for reviewing and assessing the Group's risk management and internal control systems.

The Group's internal control and risk management systems are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed, in consideration of the nature of business as well as the organisation structure, to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year of 2016, the Company has adopted the following policies and procedures and taken the following measures to improve the risk management and internal control systems of the Group.

In a bid to further improve the establishment of the existing risk management and internal control system of the Company in relation to, among others, the business operation, finance and compliance, during the year of 2016, the Company took certain measures to identify, evaluate, and manage the significant risks associated with the achievement of its operational objectives. For example, the senior management of the Group reviewed and evaluated the internal control and risk management process, monitored any risk factors on a regular basis, and reported to the Board on any findings and measures taken to address such variances and identified risks. The Board, with the assistance of the senior management of the Company, also conducted regular surveys and on-site interviews with the senior management of the Group and business representatives of the suppliers and customers to check and monitor the potential risks associated with the business operation and financial management of the Group.

Meanwhile, the Company has updated the terms of reference and procedures of the audit committee accordingly in December 2015 to conform the new requirements of the Corporate Governance code in relation to internal control and risk management. Meanwhile, with the assistance of the professional auditor, the Audit Committee supervised the Company's revenue and expenditure for the financial and economic activities, to further strengthen the functions of risk management, to ensure the effective implementation of risk management and internal control system and the Company's standardised operation and healthy development.

With the integration of the real situation of the Company and various applicable laws and regulations, the management of the Company can act in concert with such to develop solutions towards the risks, to organise the business operation systematically, and to monitor and mitigate possible risks. The Company also formulated and distributed certain internal policies to require all staff of the Group to comply with these internal risk management and internal control standards, and together build a regulatory environment of risk control and standardised operation. In addition, the Company has also established policies and procedures with clear segregation of duties applicable to certain operating units to ensure the effectiveness of risk management and internal controls. The day-to-day operation is also entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board or the audit committee. This process was in place throughout 2016 and is subject to continuous improvement.

The Board and management held its half-year and annual review of internal control and risk management 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 also 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 systems of internal controls and risk management annually.

The Company has also provided inside information training courses to the Directors and senior management of the Company to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is assessed in a timely manner and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

During the year of 2016, the Board, with the assistance of the audit committee, has conducted reviews of the risk management and internal control systems of the Company for twice and considered the risk management and internal control systems of the Company are adequate and being implemented effectively. Such review covered all material controls, financial, compliance and operational controls as well as risk management mechanisms.

The Board, with the assistance of the audit committee, has also reviewed and was satisfied with the adequacy of the Company's resources, the staff's qualifications and experience, the training courses and the related budgets in accounting, internal review and financial reporting functions.

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) 2786 2133
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 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As part of our efforts to be responsible corporate citizens, Neo-Neon Holdings Limited (hereinafter referred to as "Neo-Neon", the "Company", "We", "Us" or "Our") is committed to long-term sustainable development and focusing on fulfilling our obligations and information disclosure for environment, social and governance.

The Company has prepared its "Environmental, Social and Governance Report" for the year 2016 in accordance with the latest "Environmental, Social and Governance Reporting Guide" (the "ESG Guide") issued by The Stock Exchange of Hong Kong Limited, summarising the policies and initiatives taken to perform relevant obligations for the financial year of 2016 based on the requirements of the ESG Guide.

COMMUNICATION WITH STAKEHOLDERS

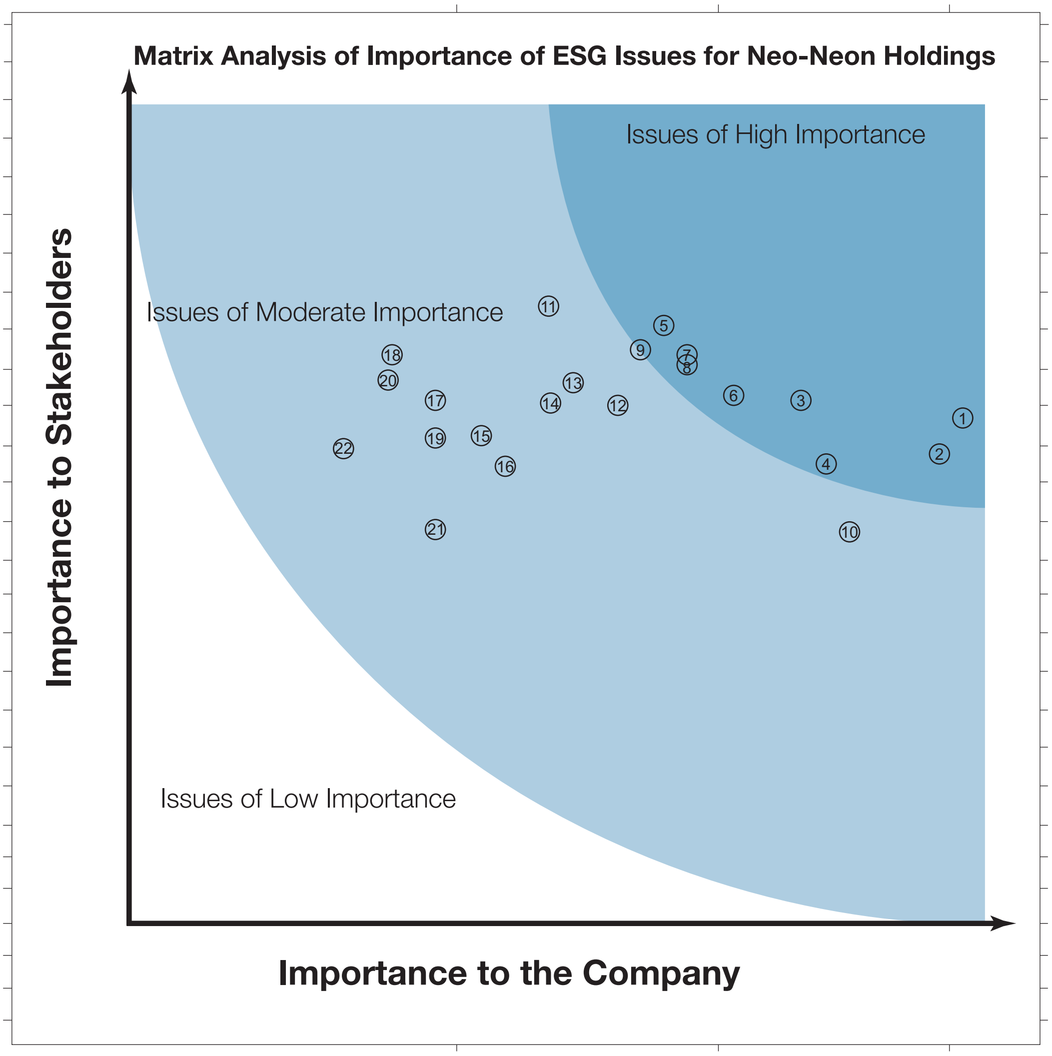
In preparation of this report, we have acquired opinions from different stakeholders through various channels to gain an understanding of their views and expectations for the environment, social and governance aspects of Neo Neon which serve as important references in preparing this report. The significant stakeholders include:

- the government
- shareholders and investors
- customers
- employees
- cooperation partners
- industry organisations
- the media
- communities
- the environment

We have engaged professional third-party organisations and conducted face-to-face communication, phone interviews, survey investigations, on-site surveys and other methods in order to communicate with stakeholders from various perspectives. In the end, we have selected 22 issues which are most concerning to the stakeholders to disclose within this report, specifically including:

1. Intellectual property rights protection
2. Legal compliance and anti-corruption
3. Product quality inspection and recall
4. Safety and privacy of consumer information
5. Emissions management
6. Waste management
7. Supplier engagement principles
8. Energy use management
9. Avoidance of child and forced labour
10. Types of participating social issues and involvement
11. Product health and safety
12. Product and service complaint
13. Supplier situation
14. Staff personal safety
15. Environment and natural resources

16 Greenhouse gas management
17 Employment situation
18 Occupational health and safety measures
19 Water use management
20 Staff turnover rate
21 Product packaging and material management
22 Staff training and involvement



A. ENVIRONMENTAL RESPONSIBILITY

A1. Emissions Management

In accordance with relevant laws and as required by the Quality, Hazardous Substances, Environmental and Occupational Health and Safety Management Manual, the Company must ensure that emissions standards are met. The Company strictly complies with the Waste Water and Waste Gas Emission and Noise Control Management Procedures, establishing strict regulations on waste water and waste gas emissions as well as noise control. In regards to the production and disposal of hazardous and non-hazardous wastes, according to the Dangerous Waste Management Regulations, the Technology Park Purchase Department organises to sell recyclable or reusable wastes (such as waste cardboard boxes); the Technology Park Purchase Department arranges separation and disposal of non-directly recyclable or reusable wastes which are handled by waste management companies; dangerous wastes are disposed of and treated for hazard removal by professional dangerous waste management companies. Meanwhile, relevant departments are required to conduct regular data collection and analysis tom combine issues identified by each department and implement specific measures to reduce or prevent production of wastes and emissions.

During the year of 2016, the Group has strictly complied with the relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharge into water and land and generation of hazardous and non-hazardous wastes.

A2. Effective Use of Resources

In order to improve resource efficiency and to facilitate energy conservation and emission reduction, the Company has formulated policies including the Energy Saving Management Regulations of Heshan Tongfang Lighting Technology Company Limited and the Resource and Energy Saving Control Procedures, actively leading employees to save energy and reduce waste in their daily operations. For example, we have rebuilt a solar-powered hot water system in our dormitories, saving approximately 500,000 kWh of power and approximately RMB410,000 on electricity bills every year. In 2016, the Company has replaced the original 40W lights with 8,100 LED 18W energy-saving lights, saving approximately 800,000kWh of power and approximately RMB650,000 on electricity bills every year. The Company uses circulated water for all central air-conditioning systems and machineries in order to conserve water.

A3. Protection of the Environment and Natural Resources

The Company values the protection of the ecological environment and has formulated policies including the Water Pollution Prevention Procedures, Soil Pollution Prevention Procedures, Identification and Assessment of Environmental Factors Procedures, to ensure industrial and domestic wastewaters are discharged into wastewater pipe networks or transferred to wastewater treatment plants to prevent contamination of water bodies; at the same time, the Company regularly inspects management targets that may be sources of soil pollution and engages a qualified environmental inspection agency to conduct soil testing regularly.

In 2016, the business operations of Neo Neon and its subsidiaries have not caused any material impact on the environment and natural resources.

B. SOCIAL RESPONSIBILITY

B1. Employment and Labour Practices

The Company's initiatives and policies in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and other benefits and welfare are in compliance with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and other relevant laws and regulations that have a significant impact on the Company. The Company has prepared the Staff Manual and Labour and Business Ethics Risk Management Procedures, comprising of policies regarding on-boarding, signing of labour contract, personnel change, termination, occupational training, code of conduct, working hours, performance assessment, welfare package, health and safety, diversity and anti-discrimination, child labour and forced labour, penalty control, freedom of association and collective bargaining rights as means to effectively safeguard the interests of our employees.

We have always adhered to the principle of fairness, strictly implementing policies related to anti-discrimination to ensure that no employees face discrimination based on race, social status, nationality, religion, disability, gender, sexual orientation, labour union membership or political party.

To establish smooth communication between employees and the Company, we have formulated the Staff Complaint Handling Procedures and Staff Recommendation and Representation Guideline in order to gather collective opinions and suggestions from employees, as well as continuing to follow-up and improve the effectiveness of corporate governance.

The basic remunerations of the Company's employees are determined with reference to the industry remuneration benchmark, the employees' experience and their performance; the basic remunerations are regularly reviewed with reference to the prevailing market and remuneration levels of similar positions in competing companies of relevant industries, and may be adjusted from time to time based on the cost of living and the Company's financial performance. In addition to basic remunerations according to the law and statutory benefits, the Group also provides discretionary bonus based on the Group's results and employee performance. We also provide various rich and practical benefits for our employees, including social insurance, housing fund, meal allowance, quarterly reimbursement for communication charges and holiday gifts or bonuses.

To guarantee a work-life balance for our employees and reasonable working hours, the Company has formulated the Attendance Management System and Overtime Management Procedures to regulate implementation of the standard working hour system of 8 hours per day, 40 hours per week and at least one day of rest per week, requiring managers of every level not to arrange for overtime at will, and providing reasonable rewards to staffs working overtime. Employees are not only entitled to leaves for national public holidays, but also leaves including personal leave, sick leave, annual leave, work injury leave, compassionate leave, marriage leave, maternity leave, breastfeeding leave, paternity leave, birthday leave etc.

As at 31 December 2016, the Company's total number of employees was approximately 1,500.

B2. Health and Safety

To safeguard occupational health and safety of our employees, the Company strives to provide a safe, healthy and comfortable working environment for our employees, protects employees from occupational hazards and strictly complies with the Labour Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Labour Rights and Interests and other relevant laws and regulations that have a significant impact on the Company in this regard. Employees are required to abide with all safety and operation rules and regulations, and utilize available and applicable protection measures at all times to avoid accidents and protect themselves from any incidental injuries.

We regularly organise rescue, fire and evacuation drills according to the Emergency Preparation and Response Procedures for the purpose of familiarising employees with the use of evacuation equipment and facilities and increasing their alertness and response capability towards emergencies.

To ensure good working conditions for our employees and that necessary emergency facilities are in place, the Company's safety departments, including safety, fire, first aid and healthcare departments, conduct regular maintenance on its plants and equipment as well as providing employees with Personal Protective Equipment (PPE) with regular replacements.

We arrange safety training specific to staffs working in positions prone to major incidents, and require specialized operations personnel to undergo mandatory training and obtain operating certificates to ensure work safety. For staffs working in positions likely to be exposed to health hazards, we also provide occupational health examinations every year and arrange for necessary transfers and treatments based on examination results and doctor recommendations.

B3. Development and Training

The Company provides its employees with on-board training, post-promotion training, comprehensive training and specialized training to guarantee the timeliness of the trainings. To ensure the practicability of the training programs, the Company not only provides programs regarding product, management science, marketing knowledge and skills, public relations and etiquette and English skills, but also training based on laws and the Articles, including laws and regulations relating to working hours, salaries and benefits, company policies and procedures, safety policies and procedures (i.e. the SA8000 Standard), safety rules and consultation channels, in order to raise awareness and improve the employees' ability to protect their own rights. Moreover, the Company also offers outperforming employees with selective external training programs to increase their management and working abilities. Employees may apply or be selected to receive short-term training programs from external professional training institutions. The training programs include short-term training courses and exchange meetings from external education institutions and training centers.

B4. Labour Standards

Neo Neon strictly prohibits the use of child labour. In order to safeguard the safety, health, education and development of children and dismiss child labourers, we have established and implemented the Child Labour Rescue Procedures and stringently prohibits the employment of labourers under the age of 16. Upon discovery of use of child labour, the Company will order them to stop working immediately and settle their wages, and they will be returned to their original places of residence safely to their parents or guardians.

The Company strictly prohibits the use of forced labour and has formulated the Non-Forced Labour Procedures for respecting the freedom of our employees, prohibiting any form of forced labour, and guaranteeing personal freedom of our employees, including the freedom of employment, resignation, working overtime and movement.

Meanwhile, the Company has also established the Management Procedure for Female and Minor Employees, providing female employees with work safety protection, reasonable working hours, leave protection and daily health care, ensuring no harm from working intensity, time and conditions be caused to the health of our female employees.

During the year of 2016, the Company has strictly complied with the relevant laws and regulations that have a significant impact on the Company relating to preventing child and forced labour.

B5. Supply Chain Management

Supplier management is one of the critical part of the corporate quality control system, supplier selection has direct impacts on quality stability and safety effectiveness. We proactively maintain long-term cooperation relationships with qualified suppliers. As at 31 December 2016, the total number of the Company's suppliers is 528, with over 80% being in Guangdong Province.

The Company is committed to the social responsibility of supply chain management and ensures that suppliers meet requirements related to quality, hazardous substance control, environment, occupational health and safety, Mandatory Product Inspection of Factory Quality Assurance Requirements, Resource Conservation Product of Factory Quality Assurance Requirements and social responsibility quality requirements. The Company closely monitors and evaluates the performance of each supplier during each cooperation period, providing feedback and disqualifying unfavorable suppliers when necessary.

As stipulated in Procurement Control Policy, the Company manages the supply chain by performing regular assessments on the environmental and social risks of the supply chain and strengthening the risks' management. Suppliers are urged to take measures to reduce their environmental and social risks. Greater emphasis is placed on our relationship and communications with suppliers with a view to the leading the Company's suppliers towards sustainable development.

B6. Product Responsibility

The Company complies with various laws and regulations relevant to its business operations and commits to ensuring the health and safety of our products and services, prevention and control unqualified products, and has put in place corresponding internal policies and systems in relation to product recall, customer complaint, customer information safety and privacy protection, intellectual property protection, such as the Product Hazard and Risk Management Procedures, Product Prevention and Control Procedures, etc.

1) Customer Service

The Company generally conducts assessments through customer contracts, and consults with the PMC Department of the main plant with regards to production, materials, technical requirements, quality, delivery date, hazardous substances, etc. ensuring that the Company is capable of meeting productions within its technical scope and delivery date, as well as to effectively control hazards and risks of raw materials and the production process.

2) Prevention of Unqualified Products

The Company requires that upon finding the main issue that may cause a batch of products to be unqualified, immediate halt of production may be rightfully commanded and the unqualified product must be labeled to be unqualified, and this must be reported and handled by the manager of the Quality Inspection Department.

3) Product Recall

In order to reduce and prevent underlying product risks and safety hazards that may cause personal or property loss of the customers, the Company has formulated and strictly implemented the Product Recall Control Procedures, ensuring the safety, smooth recall and effective management of the unqualified products.

Throughout the year of 2016, the percentage of total products sold or delivered and recalled due to safety or health issues is 0%.

4) Complaints and Return Processing

The Company requires that as soon as a customer complaint is received, the Marketing Department should log the information into the Company's customer complaint network immediately for the Quality Project Department to trace the department responsible for shipping and production, in order to respond and handle the complaint directly on the external network. The Company provides feedback and correction within 24 hours of the complaint, as well as a written response in relation to effective improvement measures within five working days that are to be strictly implemented.

The Group focuses on providing more comprehensive after-sales service and improving customer satisfaction. By establishing and strictly implementing the Customer Satisfactions Measurement Procedure the Company properly handles the return procedure and prevents such problems from happening again through correction and prevention measures.

In 2016, we received 28 product and service-related complaints in total. We have carefully recorded each complaint in detail and handled each matter seriously with sincerity and never showing disregard for our customers.

5) Information Safety and Privacy Protection

The Company places great emphasis on information safety and privacy protection, for which we have established policies such as the Use of Computer, Internet and Mail Standards, not only ensuring safety for the Company's internal confidential information but also preventing leak of customer information.

6) Intellectual Property

In order to enhance protection of the Company's intellectual properties, regulate management for intellectual properties, encourage employees' enthusiasm to innovate and create, facilitate application of intellectual properties and increase the Company's competitiveness, the Company has formulated the Intellectual Property Provisions of Heshan Tongfang Lighting Technology Company Limited based on relevant national laws and regulations combined with specific circumstances to provide clear regulations regarding property rights, license, management and protection as well as the rewards and penalty for the creators and management personnel of the intellectual properties. At the same time, the Company encourages all employees to engage in protection of the Neo Neon brand. Employees are encouraged to report any suspected infringement to the Company and to take corresponding anti-infringement actions.

During the year of 2016, the Company has strictly complied with the relevant laws and regulations that have a significant impact on the Company relating to heath and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

B7. Anti-Corruption, Bribery, Extortion, Fraud and Money Laundering

The Company maintains a high standard of business integrity throughout its operations and tolerates no corruption or bribery in any form, the Company strictly complies with relevant laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behavior and money-laundering including the Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery, and has formulated the Fighting Corruption and Boosting Integrity Policy.

Our stringent compliance with anti-corruption policies has shown excellent results, there has been no corruption litigation cases against the group or its employees in 2016.

B8. Community Investment

While achieving strong corporate development, the Company also actively contributes back to the community to grow and prosper together with the community. We are committed to charitable activities and helping disadvantaged groups from a community needs perspective, providing support in funds and resources in order to create sustainable social value.

The Company is fully aware of the importance of education and nurturing talent. In 2016, we donated RMB50,000 to the teaching building of Pingling elementary school in Gonghe Township to support the development of the local education industry. As part of our continuing efforts to care for disadvantaged groups and realize our community involvement philosophy, we donated RMB10,000 to the senior citizens of Tiegang Community on the Double Ninth Festival for purchasing daily necessities. In terms of showing our concern for employees, the Company observes the needs of our employees and strives to provide better care and development for them. In 2016, the Company provided RMB20,000 of subsidies to employees with difficulties.

By the end of the year 2016, the Company has made outward donations of RMB80,000 in total.

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

OPINION

We have audited the consolidated financial statements of Neo-Neon Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 126, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Provision for taxation in respect of the protective profits tax assessments issued by the Inland Revenue Department in Hong Kong

Refer to note 11 to the consolidated financial statements and the accounting policies on page 78.

The Key Audit Matter	How the matter was addressed in our audit
Inland Revenue Department in Hong Kong ("IRD") is conducting a tax audit of the tax affairs the Group which extends to the year of assessment 2005/06. As at 31 December 2016, the IRD had issued protective profits tax assessments in an aggregate amount of HK$146,532,000 (approximately equivalent to RMB131,074,000) for the years of assessment 2005/06 to 2010/11. The Group has lodged objections against these protective assessments and the IRD has agreed to hold over the tax demanded for these years of assessment on the condition that the Group purchased tax reserve certificates in an aggregate amount of HK$25,450,000 (approximately equivalent to RMB22,765,000), which has been recorded as tax recoverable in the consolidated statement of financial position as at 31 December 2016. No tax provision was recorded as at 31 December 2016 in respect of the above protective profits tax assessments as management considers that no Hong Kong profits tax should be payable by the Group as the subsidiaries in question did not carry out any business, nor derive any profits, in Hong Kong. Management engaged an external tax advisor to assist the Group in filing objections to and settling the case with the IRD. We identified assessing the provision for taxation in respect of the protective profits tax assessments issued by the IRD as a key audit matter because of its financial significance to the Group and because the judgement exercised by management in considering whether Hong Kong profits tax is payable or not could be subject to management bias.	Our audit procedures to assess the provision for taxation in respect of the protective profits tax assessments issued by the IRD included: • obtaining and inspecting all correspondence between the IRD and the Group and all documents submitted to the IRD by the Group; • evaluating the competence, capability and experience of the external tax advisor engaged by the Group; and • involving our internal tax specialists to assist us in assessing the judgements made and conclusions reached by management and the external tax advisor, by discussing with management and the external tax advisor to understand the nature and progress of the tax disputes and the arguments and critical judgements made by management, with reference to the relevant tax legislation and our knowledge and experience of the interpretations and practices of the IRD in similar circumstances, and considering the possibility of error or management bias.

KEY AUDIT MATTERS *(Continued)*

Assessing the recoverability of trade receivables

Refer to note 21 to the consolidated financial statements and the accounting policies on page 75.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2016, the Group's gross trade receivables totalled approximately RMB149 million, which accounted for 10% of the Group's total assets as at that date. At 31 December 2016, the Group recorded an allowance for doubtful debts of approximately RMB47 million. The Group's allowance for doubtful debts includes a specific element based on individually significant debtors and a collective element for groups of debtors sharing similar risk characteristics, taking into account the credit history of the Group's customers and current market and customer-specific conditions, including assessing whether the customers are in financial difficulties and whether the industries in which the customers operate are facing recessions. All of the above require the exercise of significant management judgement based on past experience and knowledge of the Group's customers and the industries in which they operate. We identified assessing the recoverability of trade receivables as a key audit matter because of the significance of the trade receivables balance to the consolidated statement of financial position and because the assessment of the allowance for doubtful debts involves a significant degree of management judgement.	Our audit procedures to assess the recoverability of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection and making allowances for doubtful debts; • assessing the classification of individual balances in the trade receivables ageing report by comparing the details in the trade receivables ageing report with relevant underlying documents, including goods delivery notes and payment terms as set out in the agreements with customers, on a sample basis; • challenging the basis of management's judgement about the recoverability of balances assessed individually, on a sample basis, and evaluating the allowance for doubtful debts made by management for these individual balances with reference to the industries in which the debtors are operating, the ageing of overdue balances, historical and post year-end payment records and correspondence with these customers; • assessing the assumptions and estimates made by the management for the allowance for doubtful debts calculated based on a collective assessment by performing a retrospective review of the historical accuracy of these estimates and recalculating the Group's provision with reference to the Group's policy for collective assessment; and • inspecting cash receipts from customers subsequent to the financial year end relating to trade receivables balance at 31 December 2016, on a sample basis.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

The engagement partner on the audit resulting in this independent auditor's report is Choi Chung Chuen.

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

13 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Revenue	6	611,243	602,438
Cost of goods sold		(422,713)	(435,150)
Gross profit		188,530	167,288
Other income		11,657	10,262
Other gains and losses	7(a)	28,058	63,504
Other expenses	7(b)	(590)	(4,751)
Distribution and selling expenses		(97,396)	(88,527)
Administrative expenses		(107,583)	(135,607)
Finance costs	8	(3,873)	(2,693)
Profit before taxation	9	18,803	9,476
Income tax	11	(7,061)	(4,991)
Profit for the year		11,742	4,485
		RMB cents	RMB cents
Earnings per share	12		
– Basic and diluted		0.61	0.30
Profit for the year		11,742	4,485
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
– translation differences arising from translation of financial statements, net of nil tax		33,298	19,373
Total comprehensive income for the year		45,040	23,858
Profit for the year attributable to			
– owners of the Company		11,778	5,817
– non-controlling interests		(36)	(1,332)
		11,742	4,485
Total comprehensive income for the year attributable to			
– owners of the Company		44,951	25,021
– non-controlling interests		89	(1,163)
		45,040	23,858

The notes on pages 66 to 126 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in RMB)

	Note	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Investment properties	13	14,700	14,700
Property, plant and equipment	14	149,832	231,803
Prepaid lease payments	15	31,863	38,097
Goodwill	16	8,663	8,109
Intangible assets	17	29,840	23,853
Available-for-sale investments	18	3,639	3,653
Financial asset at fair value through profit or loss	19	108,152	105,380
Deposits made on acquisition of property, plant and equipment		1,381	1,341
Deferred tax assets	27	7,063	–
		355,133	426,936
Current assets			
Inventories	20	184,316	189,174
Trade and other receivables	21	178,930	210,922
Tax reserve certificates	11	22,765	11,943
Restricted bank deposits	22	27,667	20,353
Cash and cash equivalents	22	647,356	615,663
		1,061,034	1,048,055
Assets held for sale	23	105,275	–
		1,166,309	1,048,055
Current liabilities			
Trade and other payables	24	163,546	194,373
Taxation payable		10,068	4,094
Bank borrowings	25	110,967	95,129
		284,581	293,596
Liabilities held for sale	23	11,195	–
		295,776	293,596
Net current assets		870,533	754,459
Total assets less current liabilities		1,225,666	1,181,395

The notes on pages 66 to 126 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in RMB)

	Note	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Non-current liabilities			
Government grants	26	12,765	13,914
Deferred tax liabilities	27	2,950	3,997
		15,715	17,911
Net assets		1,209,951	1,163,484
Capital and reserves			
Share capital	28	171,808	171,897
Reserves		1,037,362	990,713
Equity attributable to owners of the Company		1,209,170	1,162,610
Non-controlling interests		781	874
Total equity		1,209,951	1,163,484

Approved and authorised for issue by the board of directors on 13 March 2017.

Huang Yu	Seah Han Leong
Director	Director

The notes on pages 66 to 126 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(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 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/(loss) 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
At 1 January 2016	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
Profit/(loss) for the year	–	–	–	–	–	–	–	–	11,778	11,778	(36)	11,742
Other comprehensive income	–	–	–	–	–	–	33,173	–	–	33,173	125	33,298
Total comprehensive income	–	–	–	–	–	–	33,173	–	11,778	44,951	89	45,040
Repurchase of own shares (note 28(b))	(89)	(911)	89	–	–	–	–	–	–	(911)	–	(911)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(198)	–	(198)	(182)	(380)
Recognition of equity-settled share based payments	–	–	–	–	–	2,718	–	–	–	2,718	–	2,718
	(89)	(911)	89	–	–	2,718	–	(198)	–	1,609	(182)	1,427
At 31 December 2016	171,808	2,264,017	344	55,238	50,024	6,389	(225,574)	(8,418)	(1,104,658)	1,209,170	781	1,209,951

Note:

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

The notes on pages 66 to 126 form part of these financial statements.

(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, Neo-Neon Holdings (BVI) Limited ("NNH"), 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 NNH'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 66 to 126 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016
(Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		18,803	9,476
Adjustments for:			
Interest income	9	(2,140)	(3,434)
Finance costs	8	3,873	2,693
Gain on disposal of a subsidiary		(298)	(1,797)
Gain on disposal of available-for-sale investments		–	(182)
Depreciation and amortisation		34,876	34,229
Change in fair value of investment properties	13	–	1,795
Change in fair value of financial asset at fair value through profit or loss	19	(2,772)	120
Gain on disposal of property, plant and equipment and prepaid lease payments	7(a)	(2,421)	(27,436)
Amortisation of government grants	26	(77)	(4,147)
Net allowance for inventories	20	3,995	3,705
Reversal of allowance for bad and doubtful debts	21	(5,213)	(13,934)
Equity-settled share based payments		2,718	3,671
Net exchange gain	7(a)	(18,523)	(22,771)
Operating cash flows before movements in working capital		32,821	(18,012)
Decrease/(increase) in inventories		6,008	(22,855)
Increase in tax reserve certificates		(10,019)	(7,784)
Decrease in trade and other receivables		8,256	17,116
Decrease in trade and other payables		(22,537)	(9,478)
Cash receipt of government grants	26	–	2,250
Cash generated from/(used in) operations		14,529	(38,763)
Income tax paid		(9,599)	(5,921)
Net cash generated from/(used in) operating activities		4,930	(44,684)

The notes on pages 66 to 126 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016
(Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Investing activities			
Interest received	9	2,140	3,434
Placement of restricted bank deposits		(27,667)	(20,353)
Release of restricted bank deposits		20,353	1,167
Purchase of property, plant and equipment		(18,935)	(19,477)
Proceeds from disposal of property, plant and equipment and prepaid lease payments		19,401	18,935
Additions of intangible assets	17	(8,434)	(9,029)
Disposal of a subsidiary		–	(119)
Net cash used in investing activities		(13,142)	(25,442)
Financing activities			
Proceeds from new bank loans		94,761	27,193
Repayment of bank loans		(84,952)	(49,382)
Interest paid	8	(3,873)	(2,693)
Acquisition of non-controlling interests of a subsidiary		(380)	–
Payment for repurchase of shares	28(b)	(911)	–
Net cash generated from/(used in) financing activities		4,645	(24,882)
Net decrease in cash and cash equivalents		(3,567)	(95,008)
Cash and cash equivalents at the beginning of the year		615,663	674,806
Effect of foreign exchange rate changes		37,210	35,865
Cash and cash equivalents at the end of the year		649,306	615,663
Analysis of the cash and cash equivalents at the end of the year			
Cash and cash equivalents as disclosed in the consolidated statement of financial position		647,356	615,663
Cash and cash equivalents classified as assets held for sale	23	1,950	–
Total cash and cash equivalents in the consolidated cash flow statement		649,306	615,663

The notes on pages 66 to 126 form part of these financial statements.

NOTES TO THE CONSOLIDATED 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 had subscribed for an aggregate of approximately 51.56% of the issued share capital of the Company.

On 20 January 2016, THTF ES acquired an aggregate of 347,668,000 shares of the Company at HK$1.18 per Share ("Increase in Shareholding"). Immediately after the Increase in Shareholding, the shareholding of THTF ES in the Company increased from approximately 51.75% to approximately 69.68%.

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 (the "Listing Rules"). Significant accounting policies adopted by the Company and its subsidiaries (collectively the "Group") are disclosed 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(c) 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 consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries.

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(h)); and

– financial instruments classified as financial asset at fair value through profit or loss (see note 2(o)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(w)).

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) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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.

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.

(e) 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)*

(e) 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.

(f) 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)*

(g) 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;

– 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;

– 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;

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

– 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)*

(h) 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.

(i) 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)*

(j) 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.

(k) 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.

(l) 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)*

(l) 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)*

(m) 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.

(n) 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.

(o) 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.

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, restricted 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).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

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 or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. FVTPL are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

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.

(p) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) *(Continued)*

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.

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.

(q) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Taxation *(Continued)*

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.

(r) 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.

(s) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) 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$.

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).

(u) 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.

(v) 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)*

(w) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(x) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Related parties *(Continued)*

(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.

(y) 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 SOURCES 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:

Taxation

As detailed in note 11, 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 would have material impact on the current income tax in the period when such a determination is made. No tax provision has been recognised in connection with these tax audit cases in 2016 and prior years 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. Accordingly, no additional provision for Hong Kong Profits Tax is considered necessary in respect of the tax audit. Management engaged an external tax advisor to assist the Group in filing objections to and settling the case with the Inland Revenue Department ("IRD").

Allowance for bad and doubtful debts

The policy for allowance for doubtful debts of the Group is based on the evaluation of recoverability and ageing analysis of each customer individually based on management's judgement. 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.

Allowance for inventories

The management of the Group reviews an ageing 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 management estimates the net realisable value for goods based primarily on the latest selling prices and current market conditions.

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, other non-current assets, restricted bank deposits, cash and cash equivalents, trade and other payables and bank borrowings. 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 2016 RMB'000	At 31 December 2015 RMB'000	**At 31 December 2016 RMB'000**	At 31 December 2015 RMB'000
RMB	**808,428**	909,268	**1,144,341**	1,230,965

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 the change in RMB exchange rates against United States Dollars.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The profit before taxation of the Group would increase by RMB16,796,000 for the year ended 31 December 2016 (2015:RMB16,085,000) had RMB weakening 5% against the functional currency of the respective Group entities. For a 5% appreciation of RMB against the functional currency of the respective Group entities, there would be an equal and opposite impact.

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.

(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 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 considers the change in interest rate will not have a material impact to the Group's results and financial position.

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.

5 FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk management *(Continued)*

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

	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 2016					
Non-derivative financial liabilities		28,141	117,895	146,036	146,036
Liabilities held for sale		11,195	–	11,195	11,195
Bank loans	2.72	–	113,985	113,985	110,967
		39,336	231,880	271,216	268,198
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

5 FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

The Group's principal financial assets are trade and other receivables, restricted 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.

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 13 and note 19, 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 2016 and 2015.

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 by divisions, which are organised by a mixture of both business lines (products and services) and geography. 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

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

Segment revenue and results

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

	2016 RMB'000	2015 RMB'000
Segment revenue		
LED decorative lighting	447,878	415,681
General illumination lighting	155,702	183,845
All others	7,663	2,912
	611,243	602,438
Segment results		
LED decorative lighting	72,028	76,121
General illumination lighting	23,553	25,203
All others	669	716
	96,250	102,040
Unallocated expenses	(20,362)	(32,104)
Unallocated other gains, losses and expenses	(53,212)	(55,972)
Finance costs	(3,873)	(2,693)
Change in fair value of investment properties	–	(1,795)
Profit before taxation	18,803	9,476

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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

Segment assets and liabilities

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

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Segment assets		
LED decorative lighting	**706,654**	627,675
General illumination lighting	**313,502**	316,324
All others	**6,563**	6,092
Total segment assets	**1,026,719**	950,091
Unallocated assets	**494,723**	524,900
Consolidated total assets	**1,521,442**	1,474,991
Segment liabilities		
LED decorative lighting	**135,986**	134,793
General illumination lighting	**46,427**	59,304
All others	**2,396**	4,370
Total segment liabilities	**184,809**	198,467
Unallocated liabilities	**126,682**	113,040
Consolidated total liabilities	**311,491**	311,507

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

- all assets are allocated to reportable and operating segments other than investment properties, goodwill, available-for-sale investments and deferred tax assets. 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 tax liabilities. Liabilities for which operating segments are jointly liable are allocated in proportion to the revenues earned by individual reportable and operating segments.

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, 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	
			31 December	31 December
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
North America	**456,201**	328,310	**32,978**	28,237
Europe	**64,109**	86,455	**9,729**	9,309
PRC	**24,885**	84,398	**138,476**	225,205
Asia (excluding PRC)	**53,764**	65,648	**55,096**	56,497
Other countries	**12,284**	37,627	**–**	–
	611,243	602,438	**236,279**	319,248

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 2016 and 2015.

6 REVENUE AND SEGMENT INFORMATION *(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 2016						
Additions to non-current segment assets	**27,347**	**11,275**	**165**	**38,787**	**-**	**38,787**
Depreciation and amortisation	**23,348**	**10,285**	**169**	**33,802**	**1,074**	**34,876**
Net reversal of allowance for bad and doubtful debts	**3,597**	**1,591**	**25**	**5,213**	**-**	**5,213**
Gain on disposal of property, plant and equipment and prepaid lease payments	**1,682**	**739**	**-**	**2,421**	**-**	**2,421**
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

7(a) OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Gain on disposal of property, plant and equipment and prepaid lease payments	**2,421**	27,436
Net reversal of allowance for bad and doubtful debts	**5,213**	13,934
Net exchange gain	**18,523**	22,771
Others	**1,901**	(637)
	28,058	63,504

7(b) OTHER EXPENSES

	2016 RMB'000	2015 RMB'000
Research and development costs, net	**590**	3,516
Compensation relating to litigation	**–**	1,235
	590	4,751

8 FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings	**3,873**	2,693

9 PROFIT BEFORE TAXATION

	2016 RMB'000	2015 RMB'000
Profit before taxation is arrived at after charging:		
Directors' remuneration	**1,793**	4,410
Equity-settled share based payment expenses	**2,718**	2,291
Salaries, wages and other benefits	**135,835**	152,143
	140,346	158,844
Depreciation (note 14)	**30,321**	30,603
Amortisation		
– prepaid lease payments (note 15)	**999**	1,196
– intangible assets (note 17)	**3,556**	2,243
Auditor's remuneration		
– audit service	**3,627**	3,543
– non-audit services	**221**	236
	3,848	3,779
Cost of inventories (note 20)	**422,883**	435,167
Operating lease rentals in respect of rented premises	**7,387**	6,782
And after crediting:		
Interest income from bank deposits	**(2,140)**	(3,434)
Property rental income before deduction of negligible outgoings	**(2,179)**	(1,099)

10 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2016					2015				
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000
Executive directors										
– Mr. Seah Han Leong	–	1,083	–	–	1,083	–	1,017	–	194	1,211
– Mr Fan Xin (resigned on 15 July 2016)	–	–	–	–	–	–	56	–	–	56
– Mr. Wang Liang Hai (resigned on 15 July 2016)	–	–	–	–	–	–	163	–	152	315
– Mr. Pan Jin (resigned on 15 July 2016)	–	72	–	–	72	–	611	–	194	805
– Mr. Ben Fan (resigned on 20 January 2016)	–	14	–	–	14	–	244	–	152	396
– Mr. Lu Zhi Cheng (resigned on 9 October 2015)	–	–	–	–	–	–	189	–	304	493
– Mr. Fan Pong Yang (resigned on 22 September 2014)	–	–	–	–	–	–	–	–	101	101
Independent non-executive directors										
– Mr. Fan Ren Da, Anthony	–	208	–	–	208	–	195	–	61	256
– Mr. Liu Tian Min	–	208	–	–	208	–	195	–	61	256
– Ms. Li Ming Qi	–	208	–	–	208	–	195	–	61	256
Non-executive director										
– Mr. Liu Wei Dong	–	–	–	–	–	–	165	–	100	265
– Mr. Wang Liang Hai (appointed on 15 July 2016)	–	–	–	–	–	–	–	–	–	–
– Mr. Huang Yu (appointed on 15 July 2016)	–	–	–	–	–	–	–	–	–	–
	–	1,793	–	–	1,793	–	3,030	–	1,380	4,410

10 DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Of the five individuals with the highest emoluments, one (2015: two) of them are directors whose emoluments are listed above. The aggregate of the emoluments in respect of the other four (2015: three) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Employees		
– Basic salaries and allowances	**2,344**	1,861

The emoluments of the four (2015: three) individuals with the highest emoluments are within the following bands:

	2016	2015
Up to HK$1,000,000	**4**	3

During the year ended 31 December 2016 and 2015, 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.

11 TAXATION

	2016 RMB'000	2015 RMB'000
Taxation in the consolidated statement of comprehensive income represents:		
Provision for the year	**15,294**	5,483
Deferred taxation (note 27)	**(8,233)**	(492)
	7,061	4,991

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 2016 and 2015, 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 2016 and 2015.

11 TAXATION *(Continued)*

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 2016 and 2015.

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 2016 and 2015.

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

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 RMB4,696,000) 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 RMB4,853,000) 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 RMB25,426,000) 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 RMB32,057,000) 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 RMB21,726,000) 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.

On 29 December 2016, the IRD additionally issued protective profits tax assessments in aggregate of HK$47,305,500 (approximately equivalent to RMB42,315,000) relating to the year of assessment 2010/11, that is, for the financial year ended 31 December 2010, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

11 TAXATION *(Continued)*

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

As at 31 December 2016, 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$25,450,000 (approximately equivalent to RMB22,765,000) which have been recorded as tax recoverable. On 20 February 2017, the group purchased TRCs of totaling HK$10,000,000 (approximately equivalent to RMB8,945,000) relating to the year of assessment 2010/11.

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.

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

	2016 RMB'000	2015 RMB'000
Profit before taxation	**18,803**	9,476
Notional tax on profit before taxation, calculated at the PRC Enterprise Income Tax rate at 25% (2015: 25%)	**4,701**	2,369
Tax effect of expenses not deductible for tax purposes	**70**	133
Tax effect of net unrealised exchange gain not taxable for tax purposes	**(13,336)**	(10,498)
Tax effect of tax losses not recognised	**11,756**	7,110
Tax effect of temporary difference (utilised but no deferred taxation recognised in previous years)/not recognised	**(1,427)**	1,273
Effect of different tax rates on subsidiaries operating in other jurisdictions	**5,297**	4,604
Actual tax expense	**7,061**	4,991

12 EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000
Profit for year attributable to owners of the Company	**11,778**	5,817

Weighted average number of ordinary shares:

	Number of shares 2016 '000	 2015 '000
Issued ordinary shares at 1 January	**1,939,319**	1,939,319
Effect of shares repurchased (note 28(b))	**(293)**	–
Weighted average number of ordinary shares at 31 December	**1,939,026**	1,939,319

The equity-settled share options were not included in the calculation of diluted earnings per share because they are antidilutive for the years ended 31 December 2016 and 2015.

13 INVESTMENT PROPERTIES

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 2016 RMB'000	At 31 December 2015 RMB'000
Recurring fair value measurement:		
Properties held under medium-term leases in the PRC	**14,700**	14,700

As at 31 December 2016 and 2015, 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 years ended 31 December 2016 and 2015, 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.

14 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	Total RMB'000
Cost							
At 1 January 2015	561,863	66,100	303,286	13,840	113,114	936,618	1,994,821
Currency realignment	3,182	1,704	354	362	1,331	220	7,153
Additions	432	1,801	10,197	3,144	1,603	4,130	21,307
Disposals	(25,956)	(4,587)	-	(3,579)	-	(794)	(34,916)
At 31 December 2015	539,521	65,018	313,837	13,767	116,048	940,174	1,988,365
Currency realignment	7,251	1,629	2,218	682	1,676	4,694	18,150
Additions	851	9,092	13,490	1,840	1,105	2,594	28,972
Disposals	(4,334)	(4,114)	(326)	(1,333)	(76)	(213,614)	(223,797)
Reclassification to assets held for sale	(69,157)	(3,654)	(46,736)	(999)	-	(376,752)	(497,298)
At 31 December 2016	474,132	67,971	282,483	13,957	118,753	357,096	1,314,392
Depreciation and impairment							
At 1 January 2015	418,285	61,030	293,881	13,542	109,298	854,642	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
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
Currency realignment	3,830	1,111	2,146	346	1,672	4,571	13,676
Charge for the year	8,016	2,616	3,991	398	1,046	14,254	30,321
Eliminated on disposals	(1,072)	(1,647)	(52)	(1,268)	(22)	(202,756)	(206,817)
Reclassification to assets held for sale	(44,584)	(2,800)	(29,251)	(623)	-	(351,924)	(429,182)
At 31 December 2016	372,165	58,764	274,685	9,441	114,083	335,422	1,164,560
Carrying values							
At 31 December 2015	133,546	5,534	15,986	3,179	4,661	68,897	231,803
At 31 December 2016	101,967	9,207	7,798	4,516	4,670	21,674	149,832

14 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%

At 31 December 2015, the Group has pledged certain of its buildings with aggregate carrying values of RMB20,091,000 to secure the credit facilities granted to the Group. No buildings have been pledged as at 31 December 2016.

At 31 December 2016, certain property certificates of the Group's properties with an aggregate net book value of RMB3,049,000 were yet to be obtained (2015: RMB18,181,000).

15 PREPAID LEASE PAYMENTS

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Carrying value		
At the beginning of the year	**38,097**	58,049
Currency realignment	**536**	54
Disposals	**–**	(18,810)
Amortisation for the year	**(999)**	(1,196)
Reclassification to assets held for sale	**(5,771)**	–
At the end of the year	**31,863**	38,097

16 GOODWILL

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Balance at beginning of the year	**8,109**	7,661
Currency realignment	**554**	448
At the end of the year	**8,663**	8,109

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% (2015: 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 13.63% (2015: 13.53%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(Expressed in RMB unless otherwise indicated)

17 INTANGIBLE ASSETS

	Licenses, patent, trademarks, software and technology know-how
Cost	
At 1 January 2015	101,244
Additions through internal development	9,029
Currency realignment	4,886
At 31 December 2015	115,159
Additions	1,015
Additions through internal development	7,419
Currency realignment	7,153
Disposal	(57,522)
Reclassification to assets held for sale	(4)
At 31 December 2016	73,220
Accumulated amortisation and impairment	
At 1 January 2015	(85,139)
Amortisation	(2,243)
Currency realignment	(3,924)
At 31 December 2015	(91,306)
Amortisation	(3,556)
Currency realignment	(6,041)
Eliminated on disposal	57,522
Reclassification to assets held for sale	1
At 31 December 2016	(43,380)
Carrying values	
At 31 December 2016	29,840
At 31 December 2015	23,853

The above intangible assets are amortised on a straight line basis over three to eight years periods.

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

18 AVAILABLE-FOR-SALE INVESTMENTS

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Unlisted equity investments, at cost	**4,345**	4,345
Accumulated impairment loss recognised	**(706)**	(692)
	3,639	3,653

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.

19 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

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

19 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

At as 31 December 2016 and 2015, 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 a valuation carried out on that date by the asset manager and the asset custodian of the Fund who are recognisable and professional asset management companies. The valuation was made with reference to recent transaction price of the Fund, which is an observable input in the market.

During the year ended 31 December 2016 and 2015, 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.

20 INVENTORIES

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Raw materials	**38,757**	32,116
Work in progress	**51,382**	45,531
Finished goods	**94,177**	111,527
	184,316	189,174

At 31 December 2016, certain finished goods with a carrying value of approximately RMB32,250,000 (31 December 2015: RMB24,128,000) 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:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	**418,888**	431,462
Write down of inventories	**3,995**	3,705
	422,883	435,167

21 TRADE AND OTHER RECEIVABLES

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Trade receivables	**149,141**	151,777
Bills receivable	**11,815**	6,941
Less: allowance for bad and doubtful debts	**(47,450)**	(61,924)
	113,506	96,794
Deposits paid to suppliers	**21,079**	23,702
Value added tax recoverable	**33,656**	72,470
Value added tax refundable on export sales	**3,446**	4,221
Other receivables	**7,243**	13,735
	178,930	210,922

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 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 receivable presented based on the invoice dates (or date of revenue recognition, if earlier) and net of allowance for doubtful debts:

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
0 to 60 days	**72,292**	38,384
61 to 90 days	**12,828**	8,602
91 to 180 days	**10,473**	7,717
Over 180 days	**17,913**	42,091
	113,506	96,794

21 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 2016 RMB'000	At 31 December 2015 RMB'000
Neither past due nor impaired	**95,593**	54,703
Less than 6 months past due	**7,204**	16,858
	102,797	71,561

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 2016 RMB'000	At 31 December 2015 RMB'000
At beginning of the year	**61,924**	87,588
Net impairment loss reversed	**(5,213)**	(13,934)
Uncollectible amounts written off	**(2,944)**	(11,730)
Reclassification to assets held for sale	**(6,317)**	–
At the end of the year	**47,450**	61,924

21 TRADE AND OTHER RECEIVABLES *(Continued)*

Impairment losses in respect of trade receivables and bills receivable 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 receivable directly.

At 31 December 2016, the Group's trade and bills receivable of RMB50,040,000 (2015: RMB72,696,000) were 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 RMB45,784,000 (2015: RMB60,523,000) were recognised.

At 31 December 2016, certain trade receivables with a carrying value of approximately RMB46,226,000 (2015: RMB27,296,000) were pledged to certain banks to secure the credit facilities granted to the Group.

22 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

The restricted 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.

23 ASSETS AND LIABILITIES HELD FOR SALE

On 31 October 2016, the Group entered into three equity transfer agreements with a fellow subsidiary of the Group, Tongfang Science and Technology Park Co., Ltd ("Tongfang Technology Park"), to dispose all its 100% equity interest in three subsidiaries, namely Yangzhou Tongfang Semiconductors Co. Ltd ("Yangzhou Tongfang"), Shanghai Cuineng Photoelectricity Science and Technology Co., Ltd ("Shanghai Cuineng") and Tianjin Zhenmingli Photoelectricity Co., Ltd ("Tianjin Zhenmingli") (collectively the "Disposal Group").

These transactions constitute a discloseable transaction under Chapter 14 of the Listing Rules and a connected transaction subject to the reporting, announcement, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. On 21 December 2016, the independent shareholders of the Company approved these transactions at the extraordinary general meeting.

At 31 December 2016, the Disposal Group was in the process of submitting the application documents in relation to the equity transfers for the approval by the Ministry of Commerce of the PRC and the State Administration of Industry and Commerce of the PRC.

At 31 December 2016, the Disposal Group was available for immediate sale in its present condition. The above transactions were completed in February 2017 with no significant cost in relation to the disposal. Management are of the view that the Disposal Group do not constitute a separate major line of business, and accordingly do not meet the criteria of discontinued operations. The related assets and liabilities of the Disposal Group have been reclassified as disposal group held for sale and presented separately in the consolidated statements of financial position.

23 ASSETS AND LIABILITIES HELD FOR SALE *(Continued)*

The consideration of the equity transfer is higher than the carrying amount of the net assets of these entities attributable to the Company. Therefore, the Disposal Group was stated at carrying amount which was lower than the fair value less cost to sell and comprised the following assets and liabilities.

Assets classified as held for sale

		At 31 December 2016			
	Note	Yangzhou Tongfang RMB'000	Shanghai Cuineng RMB'000	Tianjin Zhenmingli RMB'000	Total RMB'000
Property, plant and equipment	14	46,385	20,564	1,167	68,116
Prepaid lease payments	15	4,508	–	1,263	5,771
Intangible assets	17	3	–	–	3
Inventories		2,451	–	–	2,451
Trade and other receivables		26,209	–	775	26,984
Cash and cash equivalents		1,699	215	36	1,950
		81,255	20,779	3,241	105,275

Liabilities classified as held for sale

		At 31 December 2016			
	Note	Yangzhou Tongfang RMB'000	Shanghai Cuineng RMB'000	Tianjin Zhenmingli RMB'000	Total RMB'000
Trade and other payables		10,122	–	1	10,123
Government grants	26	–	–	1,072	1,072
		10,122	–	1,073	11,195

24 TRADE AND OTHER PAYABLES

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Trade payables	71,613	72,822
Bills payable	21,935	33,321
Payroll and welfare payables	9,808	7,681
Other payables	42,680	59,578
Financial liabilities measured at amortised cost	146,036	173,402
Customers' deposits	13,433	13,825
Other taxes payable	4,077	7,146
	163,546	194,373

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

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
0 to 60 days	58,926	50,412
61 to 90 days	4,236	10,517
91 to 180 days	873	8,238
181 to 360 days	2,094	14,697
More than 360 days	27,419	22,279
	93,548	106,143

The average credit period on purchase of goods ranges around 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.

25 BANK BORROWINGS

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Bank borrowings repayable within one year		
– secured	**32,951**	20,780
– unsecured	**78,016**	74,349
	110,967	95,129

At 31 December 2016, included in the above bank borrowings were fixed-rate bank borrowings of RMB32,951,000 (2015: RMB20,780,000), which were repayable within one year. All of the bank borrowings are carried at amortised cost.

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

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Contracted interest rates (per annum)		
Fixed-rate borrowings	**1.55% ~ 4.35%**	1.92% ~ 4.54%
Variable-rate borrowings	**2.76% ~ 4.50%**	2.76% ~ 4.50%

26 GOVERNMENT GRANTS

During the year ended 31 December 2016, the Group received government grants of RMB Nil (2015: RMB2,250,000) and RMB77,000 (2015: RMB4,147,000) of the government grants have been released to profit or loss to net off with research and development expenses.

27 DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Taiwan withholding tax on undistributed earnings RMB'000	Fair value adjustment on intangible assets RMB'000	Excess tax benefit granted by tax authority arising from the acquisition of a subsidiary RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	(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)
Credited/(charged) to profit or loss	–	764	7,489	(20)	8,233
Currency realignment	(187)	(183)	247	–	(123)
At 31 December 2016	(2,950)	(662)	7,736	(11)	4,113

27 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

(a) Deferred tax assets and liabilities recognised *(Continued)*

(ii) Reconciliation to the consolidated statements of financial position:

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**7,063**	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(2,950)**	(3,997)
	4,113	(3,997)

(b) Deferred tax assets not recognised

At 31 December 2016, in accordance with the accounting policy set out in note 2, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB537,702,000 (2015: RMB490,678,000) 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 RMB281,033,000 which will not expire under the relevant tax legislation, the remaining unused tax losses carried forward of RMB10,255,000, RMB19,538,000, RMB151,909,000, RMB41,284,000 and RMB33,683,000 will expire in 2018, 2019, 2020, 2021 and 2022, respectively, if unused.

(c) Deferred tax liabilities not recognised

At 31 December 2016, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB39,723,000 (2015: RMB20,358,000). 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.

28 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 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
At 1 January 2016	171,897	2,264,928	255	55,238	50,024	3,342	(555,332)	(8,220)	(824,375)	1,157,757
Changes in equity for 2016:										
Loss for the year	–	–	–	–	–	–	–	–	(8,406)	(8,406)
Other comprehensive income	–	–	–	–	–	–	53,767	–	–	53,767
Total comprehensive income	–	–	–	–	–	–	53,767	–	(8,406)	45,361
Repurchase of own share (note 28(b))	(89)	(911)	89	–	–	–	–	–	–	(911)
Recognition of equity-settled share based payments	–	–	–	–	–	2,019	–	–	–	2,019
	(89)	(911)	89	–	–	2,019	–	–	–	1,108
At 31 December 2016	171,808	2,264,017	344	55,238	50,024	5,361	(501,565)	(8,220)	(832,781)	1,204,226

28 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital

(i) Issued share capital

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
		HKD'000		RMB'000
Ordinary shares of nominal value HK$0.10 each				
– at 31 December 2015	5,000,000,000	500,000	1,939,319,694	171,897
Share repurchased	–	–	(1,000,000)	(89)
– at 31 December 2016	5,000,000,000	500,000	1,938,319,694	171,808

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.

(ii) Repurchase of own shares

During the year ended 31 December 2016, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of HK$0.1 each	Price per share		Aggregate consideration paid
		Highest	Lowest	
		HKD	HKD	HKD
September 2016	1,000,000	1.10	1.04	1,068,660

The repurchased shares were cancelled in February 2017. The issued share capital of the Company was reduced by the nominal value of HKD$100,000. Pursuant to section 37 of the Companies Law of the Cayman Islands, the nominal value of the shares cancelled of HKD$100,000 (equivalent to RMB89,000) was transferred from the share premium to the capital redemption reserve. The premium paid on the repurchase of shares of HK$969,000 (equivalent to RMB822,000) was charged to share premium.

(c) Dividends

The directors of the Company did not recommend the payment of a dividend for the years ended 31 December 2016 and 2015.

(Expressed in RMB unless otherwise indicated)

29 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.

(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 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 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	33,000,000		

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

	31 December 2016		31 December 2015	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of Options
Outstanding at the beginning of the period	HK$1.31	33,000,000	–	–
Forfeited during the period	HK$1.31	(9,400,000)	–	–
Granted during the period	–	–	HK$1.31	33,000,000
Outstanding at the end of the period	HK$1.31	23,600,000	HK$1.31	33,000,000
Exercisable at the end of the period	HK$1.31	11,800,000	–	–

The options outstanding at 31 December 2016 had an exercise price of HK$1.31 (2015: HK$1.31) and a weighted average remaining contractual life of 3.88 years (2015: 4.88 years).

30 OPERATING LEASE ARRANGEMENTS

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 2016 RMB'000	At 31 December 2015 RMB'000
Within one year	4,019	3,656
In the second to fifth year inclusive	9,742	13,196
	13,761	16,852

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

31 CAPITAL COMMITMENTS

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

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
– acquisition of property, plant and equipment	**1,773**	4,556

32 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.

The Group offers qualified employees in the USA the opportunity to participate in a defined contribution retirement plan qualifying under the provisions of section 401(k) of the Internal Revenue Code (the "401(k) plan"). The 401(k) plan is managed by an independent trustee. The 401(k) plan is an optional benefit, the only obligation of the 401(k) plan with respect to the retirement benefit plan is to comply with the guidelines under the plan. The Group offers a match contribution up to 4% of the employees' eligible compensation, subject to a cap of US$6,000 per year for certain employees. Employer matching contributions vest upon receipt or are subject to specific vesting schedule.

33 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with the controlling shareholder and its subsidiaries

	2016 RMB'000	2015 RMB'000
Sales of products	**8,443**	27,411

(b) Key management personnel remuneration

The Company's directors represented the Group's key management and their emoluments for the year ended 31 December 2016 are set out in note 10.

(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 33 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 33(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.

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Assets and liabilities		
Interests in subsidiaries	749,293	656,416
Cash and cash equivalents	460,658	506,547
Other current liabilities	(5,725)	(5,206)
Net assets	1,204,226	1,157,757
Capital and reserves		
Share capital	171,808	171,897
Reserves	1,032,418	985,860
Total equity	1,204,226	1,157,757

35 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 29 August 2016, the Company and Vast Stone Limited entered into a sales and purchase agreement (the "Agreement"), pursuant to which the Company (or its designated nominee) has conditionally agreed to acquire and the Vast Stone Limited has conditionally agreed to sell the entire issued share capital of Buttonwood Finance Limited at the consideration of HK$179,000,000. The total consideration shall be settled by the Company by allotting and issuing an aggregate of 177,227,723 new ordinary shares at the issue price of HK$1.01 per ordinary share to Vast Stone Limited upon the Completion.

Buttonwood Finance Limited is a company incorporated in Hong Kong with limited liability and is principally engaged in provision of asset management services, investment advisory services and securities trading. As at 31 December 2016, Buttonwood Finance Limited is authorised to be a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and is licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

All the conditions precedent to the Agreement have been fulfilled and the completion of the acquisition took place on 20 January 2017 in accordance with the terms and conditions of the Agreement. An aggregate of 177,227,723 new ordinary shares have been allotted and issued to Vast Stone Limited at the issue price of HK$1.01 per ordinary share pursuant to the Agreement.

Following the completion, Buttonwood Finance Limited has become a wholly-owned subsidiary of the Company. The Acquisition constitutes a disclosable transaction for the Company under Chapter 14 of the Listing Rules.

(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			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
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
Neo-Neon (Vietnam) Development Company Limited	Incorporated	Vietnam	USD28,000,000	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

37 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, 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.

(Expressed in RMB unless otherwise indicated)

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 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
Amendments to HKAS 7, Statement of cash flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 9, Financial instruments	1 January 2018
HKFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 2, Share-based payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16, Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI).

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

HKFRS 9, Financial instruments *(Continued)*

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(g). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

HKFRS 15, Revenue from contracts with customers *(Continued)*

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred and the Group does not apply such a policy when payments are received in advance.

Advance payments are not common in the Group's arrangements with its customers.

However, the Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue.

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

HKFRS 16, Leases

As disclosed in note 2(u), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

HKFRS 16, Leases *(Continued)*

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of comprehensive income over the period of the lease. As disclosed in note 30, at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB13,761,000 respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

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 on 13 May 2016 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 20 June 2017 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" or "Neo-Neon"	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
"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
"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.