NEO-NEON HOLDINGS LIMITED

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

清华同方
TSINGHUA TONGFANG

PROVIDING INTEGRATED FINANCIAL SERVICES
A platform for incubating technological innovations

TONGFANG SECURITIES

2017 ANNUAL REPORT

Cooperation, Shared ,Win-Win

www.neo-neon.com

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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
in Association with Morgan, Lewis & Bockius
Suites 1902-09, 19th Floor, Edinburgh Tower,
The Landmark,
15 Queen's Road Central,
Hong Kong

PRINCIPAL BANKS

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

15th Floor
Allied Kajima Building
138 Gloucester Road
Wanchai, 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 and its subsidiaries for the year ended 31 December 2017.

STRATEGIC TRANSFORMATION

A profound change has been taking place in the global macroeconomic environment. Led by emerging industries, new development demands and opportunities have been arising in all economic sectors. Following the recent trend and not constrained by its current position in the LED lighting industry, the Group has taken decisive actions and entered into a phase of industry transformation, upgrade and diversification. During the year, with the hard work of all staff members of Neo-Neon and the mutual effort and support from our business partners, shareholders and investors, the Group further identified its direction of development, explored potential resources, optimised its management structure and implemented diversification strategies. The profitability of the Group has thus improved noticeably.

RESULTS OF DIVERSIFICATION DEVELOPMENT

In 2017, while maintaining an appropriate growth in the sales in the LED lighting sector, the Group also focused on market segmentation and specialisation, and continued to optimise its product mix and customer structure. The Group boasts the most comprehensive decorative lighting supply chain in the LED lighting sector. Its LED lighting sector has been ranked among the top 3 in the North American market and awarded first place of the “Top 10 Most Competitive Chinese LED Enterprises in North American Market” multiple times. The Group has been strengthening its efforts in product innovation and enhancing customer experience for the purpose of providing its customers with safe, comfortable and energy-saving light environments. We have obtained over 1,000 domestic and international patents, and have been ranked among the Top 100 Guangdong Innovative Patent Enterprises. The Group has always put utmost efforts in asset revitalisation. After transferring its equity interests in three subsidiaries in Shanghai, Yangzhou and Tianjin, the Group transformed a site based in Heshan into a LED lighting application themed science and technology zone. The core purpose of the science and technology zone is to provide interactive experiences and serve as a product showcase, distribution and exchange platform, and to integrate industry ancillary services, cultural exchange, enterprise incubation and living facilities. The science and technology zone has been approved by the Heshan City People’s Government.

In 2017, the Group completed the acquisition of Tongfang Securities Limited (formerly known as Buttonwood Finance Limited, hereinafter referred to as “Tongfang Securities”) and expanded into the financial services industry. Tongfang Securities is positioned as a “Technological Investment Bank” to seek global financial and technological opportunities while based in Hong Kong. It aims to achieve mutual growth together with the technology industry through fund investments, cross-border merger and acquisitions, financial services, fund management services and other investment banking services while integrating the higher end of various emerging industry production chains. The Tongfang Merger and Acquisition Fund managed by Tongfang Securities has successfully acquired the FLMobile and Showself Livestreaming Platform businesses of Link Motion Inc (NYSE code: NQ).

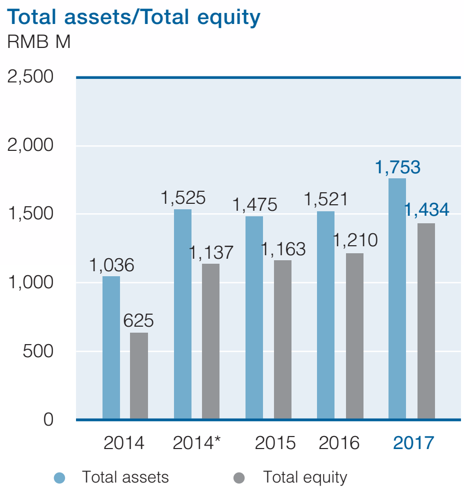
ACKNOWLEDGEMENT

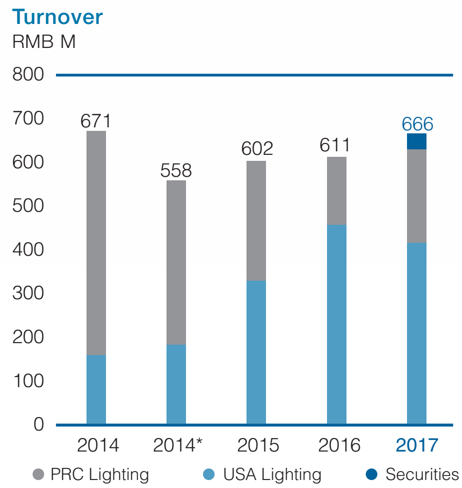
I would like to take this opportunity to acknowledge the continuous support from our shareholders, clients, business partners and suppliers. On behalf of the Group, I hereby express my heartfelt gratitude to the members of the Board and all our employees for their contribution.

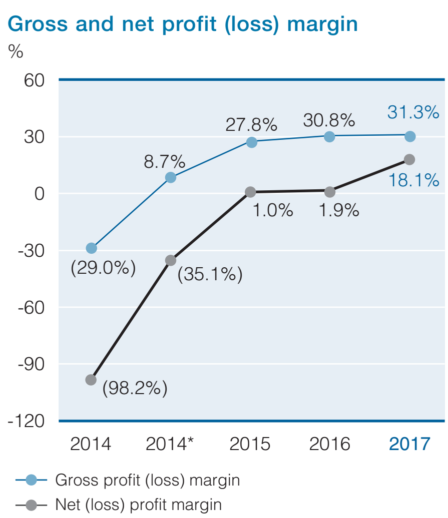
Huang Yu
Chairman
16 March 2018

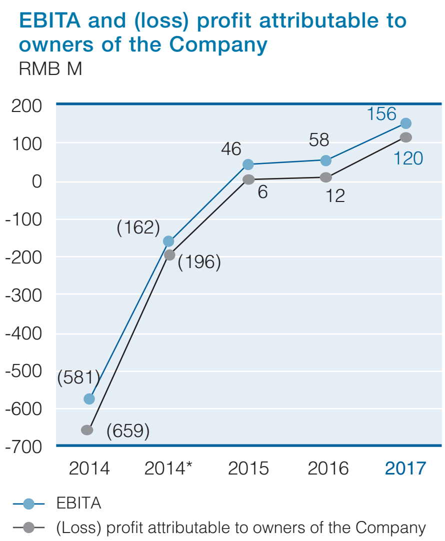
FINANCIAL HIGHLIGHTS

Expressed in RMB million	Year ended 31-Mar 2014	Year ended 31 December 2014*	2015	2016	2017
Turnover	671	558	602	611	**666**
Gross profit (loss)	(195)	48	167	189	**208**
(Loss) profit attributable to owners of the Company	(659)	(196)	6	12	**120**
EBITA	(581)	(162)	46	58	**156**
Total assets	1,036	1,525	1,475	1,521	**1,753**
Total equity	625	1,137	1,163	1,210	**1,434**
Gross profit (loss) margin	(29.0%)	8.7%	27.8%	30.8%	**31.3%**
Net (loss) profit margin	(98.2%)	(35.1%)	1.0%	1.9%	**18.1%**
EPS(Loss)-basic (RMB cents)	(70.2)	(13.1)	0.3	0.6	**5.7**









* 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 54, 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 operation 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. Mr. Seah ceased to be an executive director of Technovator on 7 February 2018 due to his other business commitment. 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 49, 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 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 53, 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 55, 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 of Tsinghua Tongfang.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fan, Ren Da Anthony (范仁達)

Mr. Fan, Ren Da Anthony (范仁達), aged 57, 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 currently the chairman and managing director of AsiaLink Capital Ltd.. 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 56, 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 50, was appointed as an independent non-executive Director on 25 August 2014. She graduated from Fudan University in Shanghai. She received a Bachelor of Economics and later 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.

From March 2011 to November 2014, she served as the independent Board Director of Sino Gas International Holdings, Inc., which is listed on the Over-The-Counter Bulletin Board in the US (stock code: SGAS). After graduation, Ms. Li served as a senior associate of PricewaterhouseCoopers and JP Morgan Chase, she served as portfolio manager of BHF Capital and Transamerica Business Capital. More recently, she serviced as a Vice President in Morgan Stanley New York and as a hedge fund controller of Mercury Capital Management in Greenwich Connecticut.

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 43, 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 senior 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 64, 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 46, 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 strategy development and the management and assessment of senior managers of the Company. He is also the vice president of THTF Lighting Group Limited (同方照明產業集團有限公司), a wholly-owned subsidiary of the Company.

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 42, is the company secretary of the Company. He joined the Group in March 2016. Mr. Leung is also the chief financial officer and the joint company secretary of Technovator International Limited, a listed issuer of the Stock Exchange (stock code: 1206). 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.

Mr. Cheng Chien Wen (鄭建文)

Mr. Cheng Chien Wen (鄭建文), aged 50, graduated from Hujiang High School in July 1991. He is the assistant president of the Company and the general manager of Creation Lighting Co. Ltd. (Taiwan), a subsidiary of the Company, mainly responsible for the decorative lights business division of the Company and the daily management of Creation Lighting Co. Ltd. (Taiwan). He joined the former Neo-Neon Group (真明麗集團) in 1986 and had held several important positions in the manufacturing and research and development department. He served as a consultant in Taiwan Lighting Fixture Export Association.

Mr. Zhai Jian Yi (翟健翼)

Mr. Zhai Jian Yi (翟健翼), aged 51, is a construction engineer, and he graduated from Heilongjiang Province Construction Workers' University in July 1990. He is the assistant president of the Company, mainly responsible for science and technology zone projects. He had served as an engineer and the deputy general manager of the planning and development department of Beijing Tongfang Property Development Co. Ltd., the general manager of the planning and development department of Beijing Tongfang Star City Properties Co. Ltd., the general manager of the engineering department of Wuxi Tongfang Science Park Co. Ltd., the project manager of the production base construction department of Tsinghua Tongfang, the manager of the engineering department of Nantong Tongfang Science Park Co. Ltd. and the manager of the Wuxi base phase II project management department of Tongfang Computer Co. Ltd. since 2001.

Dr. Li, P. W. Daniel

Dr. Li P. W. Daniel, aged 46, Ph.D in Management, has extensive experience in financial institution management. He is in charge of the Group's financial business, as well as acting as chairman of Tongfang Securities Limited and Tongfang Finance Limited.

Mr. Mak Chak Hung (麥澤鴻)

Mr. Mak Chak Hung (麥澤鴻), aged 56, graduated in economics from the University of Sussex in July 1986, and was awarded the Postgraduate Diploma in Business Administration from the University of Warwick in March 1993. He is licensed as a responsible officer with Hong Kong SFC to conduct Type 1, 4 and 9 regulated activities. Mr. Mak has over two decades of extensive experience in investment and asset management industry. Before joining Tongfang Securities Limited, he was head of Fund Management at Guosen Securities (Hong Kong) Asset Management Ltd, the managing director at ABC International Asset Management Ltd, head of Asset Management at South China Asset Management Co. Ltd, the executive director and chief investment officer at Guotai Junan (Asia) Asset Management Ltd during the years from 2006 to 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The total revenue for the year ended 31 December 2017 was approximately RMB665.7 million, representing an increase of approximately 8.9% as compared to approximately RMB611.2 million for the year ended 31 December 2016. For further details, please refer to the below.

Lighting Segment

The revenue attributable to the lighting segment (research and development, manufacturing of lighting products and distribution of lighting products and distribution and providing solutions of lighting products) for the year ended 31 December 2017 was approximately RMB641.1 million, which remained stable as compared to approximately RMB640.6 million for the year ended 31 December 2016.

Securities Segment

In August 2016, the Company entered into a sales and purchase agreement to acquire Buttonwood Finance Limited, which is currently named as Tongfang Securities Limited. Tongfang Securities Limited is principally engaged in provision of asset management services, investment advisory services and securities trading. The completion of the acquisition took place on 20 January 2017. As at 31 December 2017, Tongfang Securities 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. Tongfang Securities Limited also incorporated Tongfang Capital Limited which is a licensed corporation to carry on Type 6 (Advising on Corporate Finance) regulated activity under the SFO. Tongfang Finance Limited, an entity under common control with Tongfang Securities, is a corporation to carry on money lending business under Money Lenders Ordinance (Chapter 163 of the laws of Hong Kong). During the year ended 31 December 2017, the revenue attributable to securities segment was approximately RMB36.4 million.

Cost of goods sold

For the year ended 31 December 2017, the cost of goods sold was approximately RMB457.6 million, representing an increase of approximately RMB34.9 million over approximately RMB422.7 million for the year ended 31 December 2016 primarily due to the increase of material costs.

Gross profit and gross profit margin

For the year ended 31 December 2017, the Group recorded a gross profit of approximately RMB208.1 million, representing an increase of RMB19.6 million over the gross profit of approximately RMB188.5 million for the year ended 31 December 2016. For further details, please refer to the below.

Lighting Segment

For the year ended 31 December 2017, the Group recorded a gross profit of approximately RMB171.7 million for the lighting segment, representing an decrease of approximately RMB16.8 million or 8.9% over approximately RMB188.5 million for the year ended 31 December 2016 primarily due to the increase of the cost of goods sold.

Securities Segment

For the year ended 31 December 2017, the Group recorded a gross profit of approximately RMB36.4 million for the securities segment. There is no cost of goods sold for securities segment.

Other gains, losses and expenses

For the year ended 31 December 2017, the Group recorded other gains of approximately RMB105.4 million, representing an increase of approximately RMB77.3 million over the other gains of RMB28.1 million for the year ended 31 December 2016, due to the net gains of approximately RMB110.6 million resulting from the completion of the disposal of three subsidiaries in early 2017, namely Yangzhou Tongfang Semiconductors Co., Ltd, Shanghai Cuineng Photoelectricity Science and Technology Co., Ltd and Tianjin Zhenmingli Photoelectricity Co., Ltd. For further details, please refer to the announcement dated 31 October 2016 and the circular dated 28 November 2016.

Impairment loss of property, plant and equipment

For the year ended 31 December 2017, the amount of impairment losses recognised in respect of property, plant and equipment was nil (31 December 2016: nil).

Operating expenses

The distribution and selling expenses mainly comprised of staff costs for lighting segment, promotion and advertising, freight and transportation, agency and custom costs and rent and rates.

For the year ended 31 December 2017, the distribution and selling expenses of the Group were approximately RMB90.1 million, representing a decrease of approximately RMB7.3 million over approximately RMB97.4 million for the year ended 31 December 2016, mainly attributable to the decrease in staff costs of approximately RMB5.0 million.

The administrative expenses mainly comprised of staff costs for securities segment, directors remuneration, depreciation charge and professional and legal fee. The administrative expenses for the year ended 31 December 2017 were approximately RMB128.2 million, representing an increase of approximately RMB20.0 million over approximately RMB108.2 million for the year ended 31 December 2016, mainly due to the increase in staff costs due to the completion of the acquisition of Tongfang Securities Limited.

Finance costs

The finance costs for the year ended 31 December 2017 was approximately RMB4.7 million, representing an increase over RMB3.9 million for the year ended 31 December 2016, mainly due to the increase in new bank loan of approximately RMB94.8 million for the year of 2017 against the year of 2016.

Taxation

For the year ended 31 December 2017, the Group's tax charge of RMB5.8 million (31 December 2016: tax charge of RMB7.1 million) mainly included tax provision for the year of 2017 for approximately RMB3.2 million and deferred tax of approximately RMB2.6 million.

Profit attributable to owners of the Company

For year ended 31 December 2017, the Group recorded a profit attributable to owners of the Company of RMB120.4 million, representing an increase over RMB108.6 million for the year ended 31 December 2016, Such profit was mainly derived from, among others, PRC lighting segment profit of approximately RMB92.3 million, USA lighting segment profit of approximately RMB15.5 million and increase in revenue generated from securities segment.

Net profit

For year ended 31 December 2017, the Group recorded a net profit of RMB120.5 million, as compared to RMB11.7 million for the year ended 31 December 2016. Such profit was mainly derived from, among others, PRC lighting segment profit of approximately RMB92.3 million, USA lighting segment profit of approximately RMB15.5 million and increase in revenue generated from securities segment.

Financial Resources and Liquidity and Gearing Ratio

The Group maintained a stable financial position. As at 31 December 2017, the Group had bank balances of RMB436.0 million and short-term bank loans of RMB70.2 million. The gearing ratio representing the ratio of short-term bank loans to total equity of the Group was 4.9% as at 31 December 2017 (31 December 2016: 9.2%). Such decrease was mainly caused by the repayment of bank loans of RMB210.6 million incurred in 2017.

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 outflow from operating activities of approximately RMB95.7 million for the year ended 31 December 2017 (the year ended 31 December 2016: cash inflow of RMB4.9 million), (2) cash outflow from investing activities of approximately RMB40.5 million for the year ended 31 December 2017 (the year ended 31 December 2016: cash outflow of approximately RMB13.1 million), and (3) cash outflow from financing activities of approximately RMB51.6 million for year ended 31 December 2017 (the year ended 31 December 2016: cash inflow of approximately RMB4.6 million).

The above increase in cash outflow from operating activities was mainly attributable to the increase in cash held on behalf of client of approximately RMB90.3 million.

The above increase in cash outflow from investing activities was mainly attributable to the increase in placement of restricted bank deposits of approximately RMB29.4 million and purchase of listed shares of approximately RMB13.5 million.

The above increase in cash outflow from financing activities was mainly attributable to new bank loans of approximately RMB175.0 million, repayment of bank loans of approximately RMB210.6 million and payment for repurchase of Shares of approximately RMB11.3 million in the year of 2017.

Assets and liabilities

As at 31 December 2017, the Group recorded the total assets of approximately RMB1,752.8 million (31 December 2016: RMB1,521.4 million) and total liabilities of approximately RMB319.0 million (31 December 2016: RMB311.5 million).

As at 31 December 2017, the Group's current assets and non-current assets were approximately RMB1,298.3 million (31 December 2016: RMB1,166.3 million) and approximately RMB454.5 million (31 December 2016: RMB355.1 million), respectively. The increase in current assets was mainly attributable to the increase in available-for-sale investment of approximately of RMB321.1 million and decrease in cash and cash equivalents of approximately of RMB211.4 million.

As at 31 December 2017, the Group's current liabilities and long-term liabilities were approximately RMB305.1 million (31 December 2016: RMB295.8 million) and approximately RMB13.9 million (31 December 2016: RMB15.7 million), respectively. The increase in current liabilities was mainly attributable to increase in account payable to securities clients.

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 2017, the Group did not pledge any of its land and buildings (31 December 2016: nil). The Group pledged certain of its trade receivables and inventories with an aggregate carrying value of approximately RMB53.4 million (31 December 2016: RMB78.5 million), and also bank deposits of aggregate carrying value of RMB13.3 million (31 December 2016: RMB27.7 million) to secure bank credit facilities granted to the Group.

Capital Commitments

As at 31 December 2017, the Group had capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment of RMB4.6 million (31 December 2016: RMB1.8 million).

Contingent Liabilities

During the year ended 31 December 2017, 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 2017, the issued share capital of the Company was RMB186,911,931 (equivalent to HK$210,916,342) (31 December 2016: RMB171,808,087 (equivalent to HK$193,831,969)), divided into 2,109,163,417 ordinary shares of HK$0.10 each. Such change was primarily due to settlement of the consideration by issuing of new 177,227,723 shares for the acquisitions of Tongfang Securities Limited and cancellation of the repurchased Shares.

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT

There were no significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Period, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2017.

Subsequent Event

On 16 June 2017, Tongfang Securities, a wholly-owned subsidiary of the Company, entered into a discretionary client agreement with Hai Tong Asset Management (HK) Limited ("Investment Manager"), pursuant to which the Investment Manager has agreed to subscribe for 374,448.04 HK$ Class R1A Shares in the Haitong Freedom Multi-Tranche Bond Fund (the "Fund") for and on behalf of Tongfang Securities at the consideration of HK$400,000,000 (equivalent to approximately RMB348,600,000) (the "Investment Amount").

At 31 December 2017, the above investments were classified as available-for-sale with a fair value of HK$384,107,000 (equivalent to approximately RMB321,079,000) that are held for short-term purposes.

Subsequent to the end of the reporting period, the Investment Manager has redeemed certain interest in the Fund in the amount of HK$370,000,000 (equivalent to approximately RMB309,283,000), for and on behalf of Tongfang Securities pursuant to its discretionary authority under the discretionary client agreement on 9 February 2018.

Final Dividend

The Board resolved not to declare any dividend for the year ended 31 December 2017 (31 December 2016: nil).

BUSINESS REVIEW

Overview

During the year, lighting segment of the Group seized the opportunity to explore the overseas market without slack, increased the gross margins, improved the management level, and revitalized idle assets, which lead to the improvement in operating performance.

Heshan Tongfang Lighting Technology Co., Ltd.* (鶴山同方照明科技有限公司) ("Heshan Tongfang"), a wholly-owned subsidiary of the Group, entered into an investment framework agreement (the "Investment Framework Agreement") with the Management Committee of Heshan Municipal Industry City* (鶴山市工業城管委會) ("Management Committee of Heshan Industry City") in relation to the development and expansion of electronic information industry and LED lighting industry in Heshan Industry City* (鶴山市工業城) by planning and constructing Tongfang Science and Technology City* (同方科技城), a science and technology zone to be operated by Heshan Tongfang on 29 June 2017.

The Investment Framework Agreement marks the Group's continuous efforts to expand its current businesses of research & development, sales and manufacturing of LED decorative lighting, LED general lighting, LED professional lighting and engineering projects. The cooperation with Management Committee of Heshan Industry City also demonstrates the local government authority's commitment and faith in the Group's business and operation.

Accordingly, the Directors (including the independent non-executive Directors) are of the view that the Investment Framework Agreement is in the best interest of the Company and the shareholders of the Company as a whole.

The Company received an approval letter from Heshan Municipal People's Government* (鶴山市人民政府) ("Heshan Government"), pursuant to which Heshan Government has approved the construction and development plan of Tongfang Science and Technology City* (同方科技城), a science and technology zone to be operated by Heshan Tongfang, in Heshan Industry City* (鶴山市工業城) as contemplated under the Investment Framework Agreement on 1 March 2018. In the event any definitive agreement in relation to the Investment Framework Agreement is entered into, further announcement(s) will be made as appropriate in compliance with the Listing Rules.

The Company has start to cultivate the following into new pillar businesses, fund management, investment banking, financial management and technology-based financial business investments from emerging industries. During the year, the Company completed the acquisition of Buttonwood Finance Limited, which is currently name as Tongfang Securities Limited and has become a wholly-owned subsidiary of the Company. Tongfang Securities 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, and is licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. Tongfang Securities Limited also incorporated Tongfang Capital Limited which is a licensed corporation to carry on Type 6 (Advising on Corporate Finance) regulated activity under the SFO. Tongfang Finance Limited, an entity under common control with Tongfang Securities, is a corporation to carry on money lending business under Money Lenders Ordinance (Chapter 163 of the laws of Hong Kong). The deployment and development such national strategic emerging industries would facilitate the Group to continue to innovate and develop.

Sales and Distribution

Lighting Segment

During the year, lighting segment of 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.

Securities Segment

Tongfang Securities Limited expects to leverage on the Company's diversified business portfolio, solid client bases and extensive expertise in the high technology industry to further develop its financial service business and to explore cross-selling opportunities within the Company, especially relating to the technology sector.

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 2017, the Group's total number of employees was approximately 1,200 (31 December 2016: 1,500). 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 Tongfang Securities 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 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 35 to the consolidated financial statements.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2017 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 2017 are set out in note 35 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 are set out in the "Consolidated Statement of Comprehensive Income" on page 69 of this annual report. The Board resolved not to declare any dividend for the year ended 31 December 2017 (31 December 2016: nil).

ANNUAL GENERAL MEETING

The AGM of the Company will be held in Hong Kong on 15 May 2018. 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, 15 May 2018, the register of members of the Company will be closed from Wednesday, 9 May 2018 to Tuesday, 15 May 2018, 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, 8 May 2018. The record date for the entitlement to attend the annual general meeting will be on Tuesday, 15 May 2018.

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 27 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 2017, the aggregate amount of reserves available for distribution to equity shareholders of the company was RMB927,843,000.

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 Directors and senior management is set out on page 6 to page 9 of this report.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year under 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 2017 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 2017, 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 2017	Percentage of total issued share capital as at 31 December 2017
Mr. Seah Han Leong(1)	Beneficial owner	1,500,000	0.07%
Mr. Wang Liang Hai(2)	Beneficial owner	1,500,000	0.07%
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 him 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 2017	Percentage of total issued share capital as at 31 December 2017
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 2017, 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 2017, 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 2017	Percentage of total issued share capital as at 31 December 2017
THTF ES[(1)]	Beneficial owner	1,348,360,690	63.93%
Resuccess[(1)(2)]	Interest of controlled corporation, beneficial owner	1,357,442,690	64.36%
Tsinghua Tongfang[(1)(2)]	Interest of controlled corporation	1,357,442,690	64.36%
Vast Stone Limited	Beneficial owner	177,227,723	8.40%
Li, Pak Wang Daniel	Interest of controlled corporation	177,227,723	8.40%

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 9,082,000 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 2017, 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 2017 are set out in note 32 to the financial statements.

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

As at 31 December 2017, 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 64.36% 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 ended 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) 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.

It was proposed that the annual caps under the Master Sales Agreement for financial year ended 31 December 2017 would be RMB220,421,000.

For the year ended 31 December 2017, the aggregate transactions under the sales by the Group to Tsinghua Tongfang was approximately RMB2,487,000 which was within the cap of approximately RMB220,421,000 under the Master Sales Agreement.

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 2017.

EQUITY-LINKED AGREEMENTS

Save as disclosed herein and in the sections headed "Share Option Scheme", as at the end of and during the year ended 31 December 2017, 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 22,300,000 Shares (representing 1.06% 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 2017 are set forth as below.

Category of participants	Date of grant[1]	Exercise price per share (HK$)	Outstanding at 1 January 2017	Granted during the year	Exercise during the year	Forfeited/ Lapsed during the year	Outstanding at 31 December 2017
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**
Ms. Li Ming Qi	15 May 2015	1.31	600,000	–	–	–	**600,000**
Employees	15 May 2015	1.31	17,800,000	–	–	(1,300,000)	**16,500,000**
Total:	–	–	23,600,000	–	–	(1,300,000)	**22,300,000**

Note:

(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

Save as disclosed above, no share option was granted, exercised, lapsed, or cancelled during the year ended 31 December 2017.

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 9.19% 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 9.19% 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.

DIRECTORS' REPORT

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 year ended 31 December 2017 are set forth as below:

Category of participants	Date of grant[1]	Exercise price per share (US$)	Outstanding at 1 January 2017	Granted during the year	Exercise during the year	Forfeited/ Lapsed during the year	Outstanding at 31 December 2017
Director							
Mr. Seah Han Leong	30 June 2015	330	363	–	–	–	363
Employees	30 June 2015	330	1,868	1,401	(853)	(54)	2,362

Note:

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

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

Further details of the Subsidiary Share Incentive Plan are set out in note 28 to the financial statements.

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

During the year ended 31 December 2017, 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 (HK$)	Lowest price paid per share (HK$)	Aggregate consideration paid (HK$)	Cancellation Date
9 January 2017	200,000	1.15	1.12	229,560	16 February 2017
29 August 2017	482,000	0.78	0.78	375,960	6 December 2017
30 August 2017	1,012,000	0.80	0.77	797,360	6 December 2017
31 August 2017	404,000	0.80	0.79	323,160	6 December 2017
7 September 2017	386,000	0.83	0.80	320,060	6 December 2017
8 September 2017	240,000	0.87	0.85	207,720	6 December 2017
11 September 2017	844,000	0.95	0.92	797,840	6 December 2017
12 September 2017	326,000	0.97	0.95	314,020	6 December 2017
13 September 2017	336,000	0.97	0.95	324,240	6 December 2017
14 September 2017	1,000,000	0.96	0.93	947,880	6 December 2017
25 September 2017	506,000	0.90	0.89	454,300	6 December 2017
25 October 2017	184,000	0.85	0.83	155,260	6 December 2017
26 October 2017	464,000	0.85	0.84	393,140	6 December 2017
14 November 2017	600,000	0.84	0.82	495,980	5 March 2018
16 November 2017	372,000	0.85	0.81	311,180	5 March 2018
22 November 2017	684,000	0.80	0.78	533,920	5 March 2018
24 November 2017	220,000	0.80	0.79	175,540	5 March 2018
28 November 2017	52,000	0.78	0.77	40,440	5 March 2018
29 November 2017	116,000	0.78	0.77	90,240	5 March 2018
30 November 2017	330,000	0.77	0.77	254,100	5 March 2018
5 December 2017	100,000	0.75	0.75	75,000	5 March 2018
6 December 2017	364,000	0.75	0.74	269,700	5 March 2018
7 December 2017	992,000	0.73	0.70	708,480	5 March 2018
11 December 2017	792,000	0.79	0.73	602,180	5 March 2018
12 December 2017	872,000	0.85	0.76	707,600	5 March 2018
13 December 2017	230,000	0.85	0.80	189,540	5 March 2018
15 December 2017	70,000	0.85	0.84	59,100	5 March 2018
18 December 2017	288,000	0.84	0.81	240,300	5 March 2018
19 December 2017	360,000	0.84	0.83	301,880	5 March 2018
22 December 2017	1,098,000	0.84	0.82	905,720	5 March 2018
27 December 2017	1,404,000	0.84	0.79	1,139,480	5 March 2018

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 2017.

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 2017.

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 32 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 2017, the largest supplier accounted for 1.1% of the Group's purchases and the five largest suppliers accounted for 4.6% of the Group's total purchases. The largest customer accounted for 5.8% of the Group's total revenue and the five largest customers accounted for 11.9% 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 34 to 45 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 2015, 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 2017.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2017 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 2017 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 2017 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
16 March 2018

CORPORATE GOVERNANCE REPORT

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 2017, 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 2017.

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 2017:

	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 Director				
Mr. Seah Han Leong	✓	✓	✓	✓
Non-executive Directors				
Mr. Huang Yu	✓	✓	✓	✓
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 2017 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 2017 is set out below:

Name of Director	Attendance/Number of Board Meeting(s)	Attendance/Number of General Meeting(s)
Executive Director		
Mr. Seah Han Leong	5/5	1/1
Non-executive Directors		
Mr. Huang Yu	5/5	1/1
Mr. Wang Liang Hai	5/5	0/1
Mr. Liu Wei Dong	5/5	0/1
Independent non-executive Directors		
Mr. Fan Ren Da Anthony	3/5	0/1
Mr. Liu Tian Min	3/5	0/1
Ms. Li Ming Qi	5/5	0/1

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 2017, 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 re-election.

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 accordance with Article 87(1) and Article 87(2) of the Articles of Association, Mr. Seah Han Leong, Mr. Liu Tian Min and Ms. Li Min Qi shall retire by rotation at the AGM and, being eligible, will offer himself or herself for re-election 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 2017 and the audited annual results for the year ended 31 December 2017, 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 2017.

During the year ended 31 December 2017, three 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	3/3
Mr. Fan Ren Da Anthony	3/3
Mr. Liu Tian Min	3/3

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, a 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 2017, the remuneration committee reviewed the remuneration packages of the Directors and the senior management.

During the year ended 31 December 2017, one meeting was 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	1/1
Mr. Huang Yu	1/1
Mr. Fan Ren Da Anthony	1/1
Ms. Li Ming Qi	1/1

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 2017.

During the year ended 31 December 2017, one meeting was 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	1/1
Mr. Liu Tian Min	1/1
Mr. Fan Ren Da Anthony	1/1
Ms. Li Ming Qi	1/1

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 risk management and 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 2017, 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 2017, 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	1/1
Mr. Wang Liang Hai	1/1
Mr. Liu Wei Dong	1/1
Mr. Liu Tian Min	1/1
Ms. Li Ming Qi	1/1

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 2017, 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 2017 are as follows.

	RMB'000
Audit services	2,310
Non-audit services(1)	387
Total	**2,697**

Note: The non-audit services cover audit fee in Taiwan and tax services fee.

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 2017, 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 2017, 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 2017 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 2017, 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 (15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, 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:	15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, 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 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As part of our efforts to be a socially responsible listed enterprise, 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" (the "ESG Report") for the year 2017, which is the second ESG Report of the Company, in accordance with the latest "Environmental, Social and Governance Reporting Guide" (the "ESG Guide") issued by the Stock Exchange of Hong Kong, summarising the policies and initiatives taken to perform relevant obligations for the period from 1 January to 31 December 2017 based on the requirements of the ESG Guide.

1 RESPONSIBILITY GOVERNANCE

1.1 Governance Structure

Neo-Neon takes social responsibility management as an integral part of its daily operation and management, insists on fulfilling social responsibilities, appoints senior management to take charge of social responsibility management, establishes, implements and maintains a good social responsibility management system and extends this requirement to supply chain management. On the basis of the social responsibility management framework, we implement SA8000 international standards for social responsibility and have established a management system guided by the Social Responsibility Management Manual.

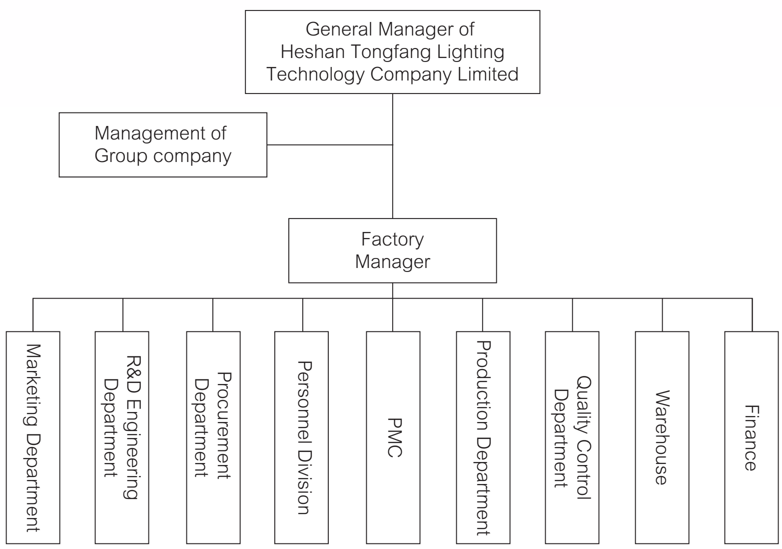


Diagram 1-1 Social Responsibility Management System Framework

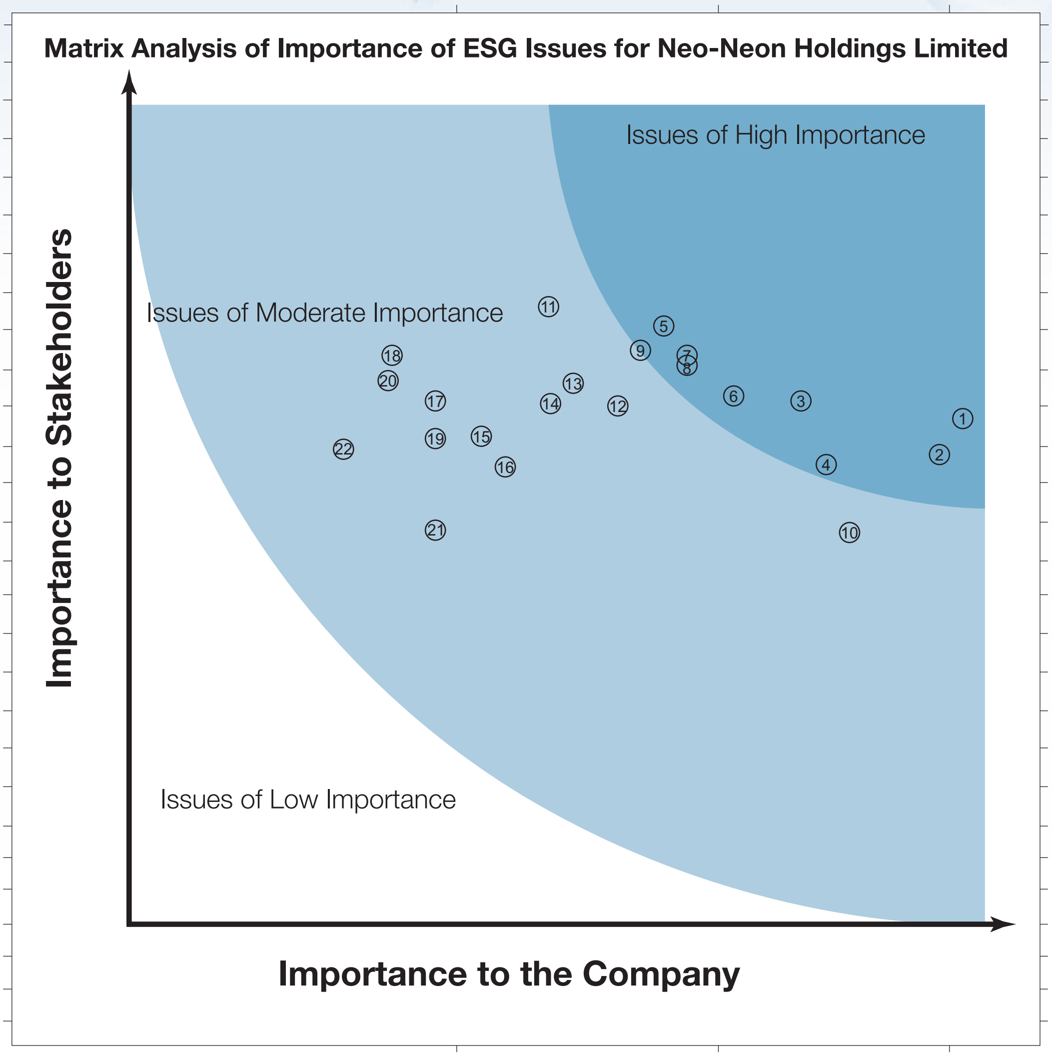
1.2 Responsibility Communication

We actively take social responsibility and are committed to creating more value for stakeholders. In order to have a better understanding of the appeals from different stakeholders, we have established various forms of platforms to facilitate communication with the government, shareholders and investors, customers, employees, cooperation partners, industry organisations and communities. The platforms will help stakeholders gain a timely understanding of the recent status of Neo-Neon in respect of corporate social responsibility. Our significant stakeholders include:

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

Since there is no significant change to the governance structure and business model of Neo-Neon during this year, we follow the results from the analysis of importance of ESG issues through communication with stakeholders in 2016 to respond to the 22 issues which are most concerning to the stakeholders in this report.

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



2 ENVIRONMENTAL PROTECTION

2.1 Emissions Management

Neo-Neon has met the requirements of 14001:2004 environmental management system and is committed to establishing a green production system to minimize the impact on the environment. We have formulated the Waste Water and Waste Gas Emission and Noise Control Management Procedures, Regulations on Prevention and Control of Pollutions by Household and Office Solid Waste and Dangerous Waste Management Regulations in strict compliance with the Environmental Protection Law of the People‘s Republic of China, with a view to further improving the management of sewage, exhaust gas and waste produced in the production process.

The Waste Water and Waste Gas Emission and Noise Control Management Procedures prescribe emission standards for the discharge volume and the concentration of pollutants in waste water produced in the production process based on the national Integrated Wastewater Discharge Standard (GB8978-1996) and local regulations, and explicitly stipulates emission standards for sulfur dioxide, nitric oxide and other air pollutants based on the Integrated Emission Standard of Air Pollutants (GB16297-1996).

According to the Environmental Monitoring and Measurement Control Procedures, Neo-Neon conducts routine monitoring over the environmental performance and important environmental factors to ensure the effective operation of the system. The Company checks the treatment and discharge of sewage, the use and management of chemicals, and the separation of waste on a regular basis, and fills in the Environmental Safety Inspection Monthly Report. In addition, the Company will entrust units with relevant qualifications to carry out measurements and inspections according to actual conditions.

According to the Dangerous Waste Management Regulations, hazardous and dangerous wastes are disposed of and treated for hazard removal by qualified environmental companies after a treatment contract is signed. We also actively improve our production process to reduce waste from the source.

In 2017, there was no emissions violation in Neo-Neon.

Table 2-1 Emissions of Neo-Neon in 2017

	Total amount		Intensity	
Category	**Unit**	**Amount**	**Unit**	**Amount**
General emissions				
Discharge volume of wastewater	ten thousand tonnes	19.60	tonne/billion output value	29,526.97
Greenhouse gas				
Scope 1 greenhouse gas	tCO2e	76.27	tonne/billion output value	153,822.67
Scope 2 greenhouse gas	tCO2e	4,394.95	tonne/billion output value	6,620.90
Hazardous waste				
Used oil/used oil rags	kilogram	100	kilogram/billion output value	150.65
Toner cartridges	box	8	box/billion output value	12.05
Non-hazardous waste				
Water pump motors	set	2		
Air compressors	set	3		

2.2 Improvement of Resource Use Efficiency

In order to improve resource and energy efficiency and to facilitate energy conservation and emission reduction, Neo-Neon has formulated and implemented the Resource and Energy Saving Control Procedures to have effective control of the use of water, electricity, papers, wood, raw materials and other resources and energy in the Company, thus ensuring the full utilisation of resources during processes such as product development, warehouse management, materials recycling and plans formulation.

In addition, we have formulated the Energy Saving Management Regulations of Heshan Tongfang Lighting Technology Company Limited to continue enhancing the energy conservation and environmental protection awareness of the staff in equipment management, power scheduling and employee behavior guidance, etc., thereby ensuring normal and orderly power utilisation in production.

Under the concept of energy conservation and emission reduction, Neo-Neon improved its production equipment in 2017 to stop using high energy consumption equipment. The Company also improved its production process and cancelled working procedures with high water consumption. Meanwhile, we offer regular training on energy conservation and emission reduction to our staff, set goals for annual emission reduction and conduct quantitative tracking of energy consumption.

Table 2-2 Energy and Resource Utilisation of Neo-Neon in 2017

	Total amount		Intensity	
Category	**Unit**	**Amount**	**Unit**	**Amount**
Energy consumption				
Gasoline	litre	33,559.87	kilolitre/billion output value	50.56
Power consumption in office	kWh	767,924.00	kWh/billion output value	10,503.53
Power consumption in living space	kWh	1,860,645.00		
Power consumption in plant	kWh	4,343,673.00		
Water consumption				
Water consumption in office	tonne	31,815.00	tonne/billion output value	535,241.04
Water consumption in living space	tonne	143,155.00		
Water consumption in plant	tonne	180,323.00		
Packaging materials consumed for finished products				
Cardboard boxes	tonne	99.70	tonne/billion output value	155.85
Plastic bags	tonne	3.38		
EPE	tonne	0.37		

2.3 Ecological Environment Protection

Neo-Neon is committed to protecting the ecological environment and has formulated the Identification and Assessment of Environmental Factors Procedures, New Project Environment and OHS Impact Management Procedures, Management Procedures Imposed on Impact of the Environmental and OHS Behaviors of Related Parties, Procedures for Risk Control Assessment on Hazardous Substance and other systems by strictly keeping with the Environmental Protection Law of the People‘s Republic of China, the Water and Soil Conservation Law of the People‘s Republic of China and other laws and regulations. We endeavor to provide all humanity with a comfortable, safe and energy-saving light environment with our more than 30 years of expertise and experience in the LED lighting industry.

In our daily operation, we continuously review our own environmental behavior and strive to reduce our impact on the environment. On this basis, we will make corresponding improvement on unreasonable factors to attain the objective of continuously improving environmental conditions. According to the Procedures for Operational Control of Environmental Aspects, we stipulate that on the premise of guaranteeing quality, new products shall be designed to have the characteristics of being long-lived, high-efficient, multi-functional, recyclable, small and light. At the stage of design review, assessment on environmental impacts such as the possible pollution caused by the use of raw materials or production process is required. We advocate using harmless technology and simplify manufacturing techniques. We also encourage the use of non-hazardous materials and reduce their usage. In the process of design, the material consumption of each product is calculated and proposals on their gradual reduction are given in consideration of plan, procurement, technique, packaging, storage and transportation.

To prevent dangerous chemicals from polluting the environment, Neo-Neon has formulated the Dangerous Waste Management Regulations to strengthen management on the storage, use, anti-dump and anti-leakage of hazardous chemicals. We make sure that industrial and domestic wastewater is discharged into sewage pipe networks or transferred to sewage disposal stations to prevent water pollution. We also carry out regular inspection on management of chemicals that may cause soil contamination and entrust qualified environmental inspection institutions to have soil regularly detected.

3 EMPLOYMENT

Neo-Neon has formulated the Child Labor Rescue Procedures, Procedures for Prevention of Discrimination and Harassment, Management Procedures for Female and Minor Employees, Overtime Management Procedures, Disciplinary Control Procedures, Labour and Business Ethics Risk Management Procedures and other internal management documents in strict compliance with the requirements of the Labour Law, the Labour Contract Law, the Social Insurance Law, the Law on Employment Promotion, the Labour Union Law and other national laws and regulations and according to SA8000 social responsibility management standard system, to regulate employment management and safeguard the legitimate interest of employees.

3.1 Employment Compliance

Neo-Neon strictly abides by relevant laws and regulations in the process of recruitment. During the recruitment process, based on the existing strict and thorough review and approval process, we will conduct verification of the prospective employees‘ previous companies, work experience and relevant background checks according to actual situations. Moreover, we will also entrust the verification to a third party to avoid child labour or any violation in the employment process.

For any possible employment-related violation, we have established the Child Labour Rescue Procedures to stringently prohibit 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 promises to provide sufficient support for these children to continue their schooling until they attain the age of legal majority. If child labourers suffer work-related injury or disability, the Company promises to be responsible for the treatment and covers all the medical and living expenses during the process. The Labour Appraisal Committee at or above the county level will determine the degree of disability and the Company will offer reasonable economic compensation as required. If there is child labourer death, the Company will give funeral compensation to their parents or other guardians and offer appropriate economic compensation.

At the same time, Neo-Neon 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. In case of any violation, we first analyse the workshop production situation and give employees certain amount of compensation, and arrange reasonable labour for the workshop through research to avoid the reoccurrence of such cases.

Meanwhile, Neo-Neon has also established the Management Procedure for Female and Minor Employees to protect the legitimate interest of female and minor employees. The Human Resources Department is responsible for establishing the minor employees management record to manage, supervise and track the special labour protection measures taken in respect of their compulsory education status, job assignment, welfare distribution, limit of working hours, work intensity and physical health checks. Moreover, their health examination records are kept. The Company also provides female employees with work safety protection, reasonable working hours, leave protection and daily health care, ensuring that work intensity, time and conditions cause no harm to the health of our female employees.

3.2 Equal and Diversified Employment

With priority given to the concept of "maximising benefits and creating more opportunities for our employees", Neo-Neon adheres to the principle of "society-oriented and open recruitment, comprehensive evaluation, merit-based election and signing labour contracts in accordance with laws" based on the Labour Law and local relevant labour regulations. We provide an equal and fair working environment according to our Social Responsibility Policies and prohibit any forms of discrimination to safeguard the basic interest of our employees.

Meanwhile, to regulate human resources management, Neo-Neon has prepared the Staff Manual and Labour and Business Ethics Risk Management Procedures, comprising of policies regarding recruitment and employment, code of conduct of employees, termination of labour contracts, safety and health as means to continuously perfect the human resources management system and create favourable conditions, clear paths and broad platforms for the career development of employees.

To establish smooth and transparent 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. If employees have any opinions and suggestions on the articles of association and welfare package of the Company, they can lodge a complaint with the staff representative, union representative, management representative and relevant functional departments or the local Labour Dispute Arbitration Committee through the Human Resources Department and the Labour Union to protect their own lawful rights and interests.

Table 3-1 Employee Employment of Neo-Neon in 2017

Category	Number of staff (person)	Percentage (%)
Total number of staff	1,200	100
By gender		
Male staff	499	41.58
Female staff	701	58.42
By age group		
Aged below 30	171	14.25
Aged 30-50	925	77.08
Aged 50 or above	104	8.67
By region		
South China	359	29.92
East China	95	7.92
North China	13	1.08
Central China	371	30.92
Overseas	362	30.17

Table 3-2 Employee turnover rate of Neo-Neon in 2017

Category	Number of staff (person)	Turnover rate (%)
Total number of resigned staff	381	30.05
By gender		
Male resigned staff	165	13.01
Female resigned staff	216	17.03
By age group		
Resigned staff aged below 30	95	7.49
Resigned staff aged 30-50	262	20.66
Resigned staff aged 50 or above	24	1.89
By region		
Resigned staff in South China	106	8.36
Resigned staff in East China	27	2.13
Resigned staff in North China	2	0.16
Resigned staff in Central China	91	7.18
Overseas resigned staff	155	12.22

Note: The calculation of employee turnover rate: the number of resigned staff for the year/(total number of staff as at the end of the previous year + new recruits)

3.3 Remuneration and Welfare Package

A reasonable and fair remuneration package is conducive to stimulate the initiative and enthusiasm of employees and is a reflection of the fulfillment of corporate social responsibilities. Hence, Neo-Neon has formulated the Salary Management System based on the Staff Manual. The remunerations of employees are determined with reference to their experience, education background and their performance and may be regularly reviewed and adjusted based on the remuneration levels of its peers and prevailing market. In addition to basic remunerations according to the law and statutory benefits, the Group also provides post allowance based on the nature and importance of the post, bonus based on employee performance and overtime pay according to overtime work, to make sure that employees can enjoy a reasonable and incentive pay.

Moreover, Neo-Neon provides its employees with complete basic living and welfare facilities, including dormitories, canteens and rest and recreation areas to ensure that they have access to healthy food, comfortable living environment and necessary rest space. In addition, to meet the various needs of employees, we also provide them with various rich and practical benefits, including labour protection supplies, health care, recreational and sports activities and so on.

3.4 Safe Production

To ensure safe production, Neo-Neon has formulated the OHS Operation Control Procedures and Procedures for Hazard Identification, Risk Evaluation and Risk Control Planning led by the Industrial Safety Commission and collaborated with the Engineering Department, the Equipment Department, the Testing Center and other relevant departments to work out safe production indicators and management program. We conduct regular evaluation on the Company's production equipment and fire control facilities and sample a part of workshops for evaluation from time to time. In the process of evaluation, hazards with grade Ⅲ and Ⅳ will be listed as major hazard sources of the Company and improvement measures will be taken immediately. For those that temporarily cannot be improved, we will take corresponding safety precautions, allocate labour protection supplies, offer training to relevant operating personnel and work out operation instruction.

In the meantime, to ensure timely control of dangers when an accident happens, we have formulated the Emergency Preparation and Response Procedures to protect the safety and health of employees. We also regularly organise rescue, fire and evacuation drills for the purpose of familiarising employees with the use of evacuation equipment and facilities and increasing their alertness and response capability towards emergencies, cultivating their awareness, confidence and ability to engage in self-rescue and assisted rescue processes.

In 2017, there was no major casualty in Neo-Neon, while three cases of ordinary work-related injuries and 21.5 lost working days due to work injuries were recorded.

3.5 Occupational Health

Neo-Neon values the importance of the occupational health of employees and has established an occupational health management system based on the Environment and Occupational Health Policy, OHS Operation Control Procedures and OHS Performance Measurement and Monitoring Procedures.

Concerning potential occupational health hazard, we organise all departments and invite external institutions to conduct professional inspection on a regular basis. The Company carries out an OHS professional inspection every half a year and focuses on key special operations and equipments, special sites (such as sites for electro-welding, hoisting equipment, boiler pressure vessels, flammables and explosives) and storages for dangerous goods. The results of the inspection will be recorded in the OHS Professional Checklist. Inspection on OHS objectives and OHS management plans will be implemented every quarter and ad hoc inspection on the operation and control of each department will also be conducted, with their results to be recorded in the OHS Objectives, Management Plans Completion Checklist and the Operation Control Monitoring Chart respectively. In addition, we have engaged professional third-party institutions to evaluate hazardous factors at the work sites under the Company and testing reports show that we are in compliance with relevant regulations.

To enhance the occupational health awareness of our employees, we require specialised operations personnel to undergo mandatory training and obtain operating certificates to ensure work safety in accordance with the Manual of Quality, Hazardous Substance, Environmental and Occupational Health and Safety Management. We also arrange positions-specific safety training to relevant staffs. We also provide occupational health examinations at varying intervals to all staff according to their job characteristics, and arrange for transfers if adverse health conditions are found in examinations. Employees found to have occupational diseases will be immediately reported to the government administration department as required by the occupational disease management ordinance, and the patients will receive special treatment until recovery (or stability).

3.6 Occupational Training

Neo-Neon is committed to providing its staff with systematic training and complete career development channels. Working on the basis of the Staff Manual, Neo-Neon has formulated the "Human Resource and Training Program Documentation", to further improve its training and occupational development system.

Neo-Neon had developed an annual training program in 2017 and outlined descriptions for all positions. Relevant theoretical and practical training in respect of production, quality, administration, engineering technology and special types of work are provided to employees as per job responsibilities. After training, employees have to be evaluated by department heads by theoretical examination, operation examination, performance appraisal and observation according to the job nature of the employees. In order to continuously improve the quality of training content, the Company also requests inputs and feedbacks on training from various departments at the end of each year to prepare training programs for the next year, in addition to summarising the progress of the training programs for the year and including unscheduled training programs implemented during the year.

The Company also nominates employees with outstanding performance for additional external training programs to enhance their management and working abilities and provide them with necessary knowledge bases. 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 centres.

In 2017, a total of 130 employees of Neo-Neon attended training, with an aggregate of 1,557 training hours.

Table 3-3 Training of the Staff of Neo-Neon in 2017

	Number of staff trained (Person)	Percentage of staff trained (%)	Training hours (Hour)	Average training hours (Hour)
Male staff	70	53.85	867	12.39
Female staff	60	46.15	690	11.50
Full-time staff	130	100	1,557	11.98
Part-time staff	0	0	0	0
Total number of staff trained	130	100	1,557	11.98

Neo-Neon actively creates opportunities for employees career advancement and development. Based on the criteria on promotion, assessment, rewards and punishment management as outlined in the Staff Manual, the Company conducts monthly, quarterly and annual assessments and appraisals on the capability and quality of employees. Employees will be gradually promoted or demoted to a suitable position according to the Company's standards for position grades, and their salary will also be adjusted based on their corresponding position grades.

4 SUPPLY CHAIN MANAGEMENT

4.1 Supply Chain Management

Supplier selection impacts quality stability and safety effectiveness of products. We highly emphasis suppliers management and proactively maintain good cooperation with suppliers. As at 31 December 2017, the total number of the Company's suppliers is 373, with about 80% being in Guangdong Province.

Table 6.1 Number and proportion of supplier by region in 2017

Region	Number	Proportion
Within the province	294	78.82%
Outside the province	32	8.58%
Overseas	47	12.60%

We maintain a strict oversight on our selection of suppliers and procurement process as per our Procurement Control Policy. When introducing new suppliers, we minimise our purchase cost while ensuring the stable supply of procurement materials according to the New Suppliers Introduction Management Methods. During the procurement process, we issue purchase orders to relevant suppliers, and our purchasing personnel will conduct procurement according to the Procurement Guidelines. After the procurement is finished, we will verify the purchased materials based on the technical standards of different products and in accordance with the Incoming Inspection and Testing Procedures, so as to ensure that the supplied materials meet the requirements of products, environment and relevant laws and regulations in respect of quality, hazardous substance control, CCC/resource certification/other product certifications.

4.2 Promoting Supply Chain to Fulfill Social Responsibilities

To guarantee product quality and build a good brand reputation, Neo-Neon conducts comprehensive evaluation of suppliers according to the Supplier Review Procedures with strict criteria. The evaluation takes into account sample quality, quality control ability, hazardous substance control, environment, occupational health and safety as well as the ability of suppliers to meet the requirements of SA8000:2014 standard.

In addition, we have entered into relevant undertakings in relation to social responsibility with our suppliers, including complying with all the provisions of SA8000:2001 standard and taking timely remedial and corrective action against any non-compliance with SA8000:2014 standard, which demonstrates the social responsibility of Neo-Neon in supplier management system.

For suppliers that have passed the evaluation, we will ask them to verify the "Annual Quality Guarantee of Heshan Tongfang Lighting Technology Company Limited", indicating the period of validity and implement periodic review. For suppliers that fail to pass the evaluation, the Procurement Department, the Production Department, the Quality Department and other relevant departments will review those suppliers and determine whether to exclude them from the supplier directory according to their rectification.

5 PRODUCT RESPONSIBILITY

5.1 Quality Control

To guarantee quality, Neo-Neon has developed "Production Plan Procedures", "Production and Service Provision Program Control Procedures" and "Product Prevention and Control Procedures" and other management systems to regulate the delivery process covering product production plan, raw material commissioning and shipment, transportation, storage, packaging and protection, for effective control of the production and service process.

Neo-Neon requires that incoming materials from suppliers must undergo inspection. During the production process, the production workshop, warehouse and office area are regularly sterilized and risk assessment are conducted on foreign matters, chemicals and physical hazards, to ensure that all shipped products must be cleaned and in good hygiene, and comply with the requirements of laws and regulations. Unqualified behaviors in the workshop must be corrected immediately and unqualified products must be labeled as unqualified. The Company also requires that when inspectors find issues that may cause a batch of products to be unqualified in the process of inspection, they are authorised to order immediate halt of production, and effective remedial, corrective and preventive measures shall be taken to eliminate existing or potential disqualification factors.

The Company has passed the ISO9001 quality management system requirements, and have already in place a well-rounded quality control and inspection team. The Company has established a testing centre where there are more than 170 sets of detecting instruments that can be used for the testing of safety standards, photoelectricity, EMC, environmental protection and environment (reliability). We also have 150 sets of production field testing instruments in service.

While using our own detecting instruments for routine and regular inspection, we often deliver our products to CEST of the State Bureau of Quality and Technology Supervision for CCC, CQC certification testing and to the laboratories of ITS, GS, TUV, UL and other foreign institutions for international safety standards inspection certification. For many years, our sampling inspection results have been excellent.

5.2 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 drafted and strictly implemented management and control documents including the "Product Hazard and Risk Management Procedures", "Unqualified Product Control Program", "Procedures for Non-compliance, Correction and Prevention Measures", to eliminate existing unqualified products and potential disqualification factors to ensure product quality and safety.

For potential case of products disqualifications, Neo-Neon has established the "Product Recall Control Procedures", ensuring effective tracking and recall of products with hidden quality problems, as well as safety, smooth recall and effective management of the targeted unqualified products. In terms of products with hidden quality problems and have been complained, we will sort out the direction and coverage of the same batch of products that directly affect the quality in accordance with relevant records to determine the categories to be recalled, and to conduct analysis and assessment to determine the extent of recall. When defective products are identified, Neo-Neon are to notify retailers to halt the sales of relevant products within 10 working days by effective means. Meanwhile, the Company will promptly convey the information on recall procedures to customers via papers, broadcasting stations, TV stations, the Internet and other communication media. Neo-Neon has also established mock recall procedures, which are to be implemented annually to practice on, evaluate and verify the effectiveness of the recall procedures.

The strict product quality assurance policy has shown good results as there was no product recall related to safety and health in 2017.

5.3 Customer Relation Management

The Company puts high emphasis on implementing the "Customer Satisfactions Measurement Procedure" and continuously improves service quality, and monitor and regulates information that work to fulfill customers' requirements, so as to ensure that proper response is made to handle complaints and returns, and to prevent reoccurrence of such problems through correction and prevention measures.

Our system in place requires that as soon as a customer complaint is received, the information should be logged into the Company's customer complaint network immediately to trace the department responsible for shipping and production, in order to respond and handle the complaint directly on the external network. Results of handling customer returns are numbered and archived uniformly. The Company is to provide feedback and correction within 24 hours of the complaint, as well as a written response on effective improvement measures within five working days. When potential product safety hazard occurs, the Company will inform third-party testing institutions immediately.

In 2017, after strengthening supervision and improvement of manufacturing and technical structure, we received 26 product and service-related enquiries and complaints in total, of which, 17 enquiries and complaints were from the customers' product use and only 2 complaints were related to manufacturing.

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. In addition, we have formulated the Customer Property Control Procedures for verification, storage and maintenance of customers' products (including intellectual properties, personal information, etc.), ensuring that the property of customers will not be lost and that the products meet their requirements.

5.4 Intellectual Property Management

In order to enhance protection of the Company's intellectual properties, and to regulate the management of intellectual properties, as well as motivating employees' innovativeness and creativity and facilitating utilisation of intellectual properties to raise the Company's competitiveness, the Company has adopted the "Intellectual Property Provisions of Heshan Tongfang Lighting Technology Company Limited" as based on relevant national laws and regulations while accounting for specific circumstances, to provide clear regulations regarding property rights, license, management and protection as well as the rewards and penalty for invention and management personnel of intellectual properties.

The provisions stipulate that a standard patent division shall take full responsibility on the application, validity extension and information update, and infringement prevention of the Company's intellectual properties. Employees are obliged to prevent the Company's intellectual properties from being infringed and safeguard the legitimate interest of the Company. If infringement is found, it should be promptly reported to the standard patent division and the legal department. Persons concerned should provide relevant clues and assist in the investigation and evidence collection.

To encourage innovativeness, the Company rewards the originators and management personnel of intellectual properties and the Company is entitled to register for government patent subsidy and participate in award appraisal according to policies. The Company has the right to penalise originators and management personnel who have violated relevant regulations and caused losses to the Company.

6 INTEGRITY AND SOUND GOVERNANCE

In order to establish a good corporate culture that highlights legal compliance, integrity and self-discipline, and to create a fair, honest and law-abiding business environment, the Company strictly complies with relevant laws and regulations relating to anti-corruption, bribery, fraudulent behavior and money-laundering including the "Anti-Unfair Competition Law of the People's Republic of China" and the "Interim Provisions on Banning Commercial Bribery", and has put in place the "Fighting Corruption and Boosting Integrity Policy of Heshan Tongfang Lighting Technology Company Limited" to proactively implement an internal governance standard that ensures integrity.

Neo-Neon continuously promotes integrity management and there has been no corruption litigation cases against the Company in 2017.

7 COMMUNITY SUPPORT

Neo-Neon is greatly concerned about people's livelihood and is continuously paying back to the community. Moreover, the Company also proactively commits to community services and charitable donation, and undertakes public welfare as a part of corporate social responsibility. In 2017, Neo-Neon focused on community care, educational donation and helping employees with difficulties. The Company successively organised several community elderly care activities and provided condolence to employees with difficulties, with RMB11,600 in total contributed.

INDEPENDENT AUDITOR'S REPORT

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 69 to 146, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("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 88.

The Key Audit Matter	How the matter was addressed in our audit
The Inland Revenue Department in Hong Kong ("IRD") is conducting a tax audit of the Group since the year of assessment 2005/06. As at 31 December 2017, the IRD had issued protective profits tax assessments in an aggregate amount of HK$149,311,000 (approximately equivalent to RMB124,809,000) for the years of assessment from 2005/06 to 2011/12. The Group has lodged objections against these protective profits tax 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$35,450,000 (approximately equivalent to RMB29,633,000), which has been recorded as tax reserve certificates in the consolidated statement of financial position as at 31 December 2017. No tax provision was recorded as at 31 December 2017 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 on any business, nor derive any profits, in Hong Kong during the years of assessment from 2005/06 to 2011/12. Management engaged an external tax representative 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 judgements 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 representative 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 representative, by discussing with management and the external tax representative 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 85.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2017, the Group's gross trade receivables totalled approximately RMB173 million, which accounted for 10% of the Group's total assets as at that date. 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. As at 31 December 2017, the Group recorded an allowance for doubtful debts of approximately RMB46 million. 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 of the assessment of 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 trade receivable 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 ageing of overdue balances, historical and post year-end payment records and correspondence with these customers; • assessing the assumptions and estimates made by 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 as at 31 December 2017, on a sample basis.

KEY AUDIT MATTERS *(Continued)*

Assessing the impairment test of goodwill

Refer to note 16 to the consolidated financial statements and the accounting policies on page 79.

The Key Audit Matter	How the matter was addressed in our audit
The Group acquired the entire issued capital of Tongfang Securities Limited ("Tongfang Securities") in 2017. As at 31 December 2017, the goodwill arising on this acquisition amounted to approximately RMB122 million, which accounted for 7% of the Group's total assets as at that date. Management performed impairment test on the balance of goodwill as at 31 December 2017 by comparing the carrying amount of the cash-generating unit ("CGU") of which the goodwill has been allocated with the amount of the value-in-use ("VIU") determined by a discounted cash flow forecast of the CGU. Preparing a discounted cash flow forecast involves the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining an appropriate discount rate. We identified the assessment of potential impairment of goodwill as a key audit matter because of the significance of the goodwill balance to the consolidated statement of financial position and also because management's assessment of the value of the future cash flows expected to be derived from Tongfang Securities involves certain critical judgements and assumptions which are inherently uncertain and could be subject to management bias.	Our audit procedures to assess the potential impairment of goodwill included the following: • evaluating management's identification of CGUs and the amounts of goodwill and other assets allocated to those CGUs; • evaluating the methodology used by management in its preparation of the discounted cash flow forecasts with reference to the Group's accounting policies; • assessing and challenging the key assumptions adopted by management in the discounted cash flow forecasts, which included the estimated revenue and profit (with reference to historical profit margins of the CGU), the financial budgets approved by the directors; • engaging our internal valuation specialists to assist us in evaluating management's impairment assessment methodology and calculations contained within the discounted cash flow forecasts with reference to the requirements of the relevant accounting standards; • performing sensitivity analysis on the discount rate and terminal growth rate applied and the assumptions for revenue and expenses adopted by management in the cash flow forecast to assess the impact of changes in these key assumptions on the conclusion reached in management's impairment assessment; and • performing a retrospective review of previous impairment assessment and comparing the forecast data with the current year's results to assess the reliability of management's forecasting process.

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

16 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017
(Expressed in Renminbi ("RMB"))

	Note	2017 RMB'000	2016 RMB'000
Revenue	6	665,724	611,243
Cost of goods sold		(457,634)	(422,713)
Gross profit		208,090	188,530
Other income	7(a)	35,858	11,657
Other gains and losses	7(b)	105,374	28,058
Distribution and selling expenses		(90,146)	(97,396)
Administrative expenses		(128,199)	(108,173)
Finance costs	8	(4,658)	(3,873)
Profit before taxation	9	126,319	18,803
Income tax	11	(5,838)	(7,061)
Profit for the year		120,481	11,742
		RMB cents	RMB cents
Earnings per share	12		
– Basic and diluted		5.72	0.61
Profit for the year		120,481	11,742
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
– Available-for-sale investments: net movement in fair value reserve, net of nil tax		(13,285)	–
– Exchange differences on translation of financial statements, net of nil tax		(57,271)	33,298
Total comprehensive income for the year		49,925	45,040
Profit for the year attributable to			
– owners of the Company		120,375	11,778
– non-controlling interests		106	(36)
		120,481	11,742
Total comprehensive income for the year attributable to			
– owners of the Company		49,964	44,951
– non-controlling interests		(39)	89
		49,925	45,040

The notes on pages 76 to 146 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017
(Expressed in RMB)

	Note	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Investment properties	13	**14,200**	14,700
Property, plant and equipment	14	**130,394**	151,213
Prepaid lease payments	15	**30,469**	31,863
Goodwill	16	**123,454**	8,663
Intangible assets	17	**35,404**	29,840
Available-for-sale investments	18	**3,324**	3,639
Financial asset at fair value through profit or loss	19	**111,166**	108,152
Deferred tax assets	26	**6,179**	7,063
		454,590	355,133
Current assets			
Inventories	20	**177,395**	184,316
Trade and other receivables	21	**208,968**	178,930
Tax reserve certificates	11	**29,633**	22,765
Available-for-sale investments	18	**321,079**	–
Financial asset at fair value through profit or loss	19	**21,571**	–
Restricted bank deposits	22	**13,322**	27,667
Cash held on behalf of clients	22	**90,321**	–
Cash and cash equivalents	22	**435,964**	647,356
		1,298,253	1,061,034
Assets held for sale	23	**–**	105,275
		1,298,253	1,166,309
Current liabilities			
Trade and other payables	24	**234,827**	163,546
Taxation payable		**40**	10,068
Bank borrowings	25	**70,243**	110,967
		305,110	284,581
Liabilities held for sale	23	**–**	11,195
		305,110	295,776
Net current assets		**993,143**	870,533
Total assets less current liabilities		**1,447,733**	1,225,666

The notes on pages 76 to 146 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017
(Expressed in RMB)

	Note	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Non-current liabilities			
Government grants		**7,475**	12,765
Deferred tax liabilities	26	**6,459**	2,950
		13,934	15,715
Net assets		**1,433,799**	1,209,951
Capital and reserves			
Share capital	27	**186,912**	171,808
Reserves		**1,242,923**	1,037,362
Equity attributable to owners of the Company		**1,429,835**	1,209,170
Non-controlling interests		**3,964**	781
Total equity		**1,433,799**	1,209,951

Approved and authorised for issue by the board of directors on 16 March 2018.

Huang Yu	**Seah Han Leong**
Director	Director

The notes on pages 76 to 146 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017
(Expressed in RMB)

	Attributable to owners of the Company											
	Share capital	Share premium (Note 27(e)(i))	Capital redemption reserve (Note 27(e)(ii))	Special reserve (Note 27(e)(iii))	Share compensation reserve (Note 27(e)(iv))	Share options reserve (Note 27(e)(v))	Translation reserve (Note 27(e)(vi))	Other reserve (Note 27(e)(viii))	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 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 27(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

The notes on pages 76 to 146 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017
(Expressed in RMB)

	Attributable to owners of the Company													
	Share capital (Note 27(b)) RMB'000	Treasury shares (Note 27(d)) RMB'000	Share premium (Note 27(e)(i)) RMB'000	Capital redemption reserve (Note 27(e)(ii)) RMB'000	Special reserve (Note 27(e)(iii)) RMB'000	Share compensation reserve (Note 27(e)(iv)) RMB'000	Share options reserve (Note 27(e)(v)) RMB'000	Translation reserve (Note 27(e)(vi)) RMB'000	Fair value reserve (Note 27(e)(vii)) RMB'000	Other reserve (Note 27(e)(viii)) RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	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
Profit for the year	-	-	-	-	-	-	-	-	-	-	120,375	120,375	106	120,481
Other comprehensive income	-	-	-	-	-	-	-	(57,126)	(13,285)	-	-	(70,411)	(145)	(70,556)
Total comprehensive income	-	-	-	-	-	-	-	(57,126)	(13,285)	-	120,375	49,964	(39)	49,925
Issue of shares (note 33(a))	15,670	-	166,098	-	-	-	-	-	-	-	-	181,768	-	181,768
Repurchase of own shares (note 27(b))		(11,304)	-	-	-	-	-	-	-	-	-	(11,304)	-	(11,304)
Cancellation of treasury shares	(566)	5,004	(5,004)	566								-	-	-
Recognition of equity-settled share based payments	-	-	-	-	-	-	1,601	-	-	-	-	1,601	-	1,601
Exercise of share options (note 28)	-	-	-	-	-	-	(682)	-	-	(682)	-	(1,364)	3,222	1,858
	15,104	(6,300)	161,094	566	-	-	919	-	-	(682)	-	170,701	3,222	173,923
At 31 December 2017	186,912	(6,300)	2,425,111	910	55,238	50,024	7,308	(282,700)	(13,285)	(9,100)	(984,283)	1,429,835	3,964	1,433,799

The notes on pages 76 to 146 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		**126,319**	18,803
Adjustments for:			
Interest income	7(a)	**(3,383)**	(2,140)
Finance costs	8	**4,658**	3,873
Gain on disposal of a subsidiary	7(b)	**(110,649)**	(298)
Depreciation and amortisation		**25,358**	34,876
Change in fair value of investment properties	13	**500**	–
Change in fair value of financial asset at fair value through profit or loss	7(b)	**(11,614)**	(2,772)
Dividend income from available-for-sale investment	7(a)	**(21,058)**	–
Impairment loss on available-for-sale equity securities	18	**315**	14
Gain on disposal of property, plant and equipment	7(b)	**(496)**	(2,421)
Amortisation of government grants		**(5,509)**	(77)
Net allowance for inventories	20	**6,462**	3,995
Net allowance/(reversal of allowance for) bad and doubtful debts	21	**1,368**	(5,213)
Equity-settled share based payments		**1,601**	2,718
Net exchange loss/(gain)	7(b)	**16,097**	(18,523)
Changes in working capital:			
Decrease in inventories		**459**	6,008
Increase in tax reserve certificates		**(6,868)**	(10,019)
(Increase)/decrease in trade and other receivables		**(32,122)**	8,256
Increase in cash held on behalf of client		**(90,321)**	
Increase/(decrease) in trade and other payables		**32,063**	(22,551)
Cash (used in)/generated from operations		**(66,820)**	14,529
Income tax paid		**(28,869)**	(9,599)
Net cash (used in)/generated from operating activities		**(95,689)**	4,930

The notes on pages 76 to 146 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Investing activities			
Interest received	7(a)	3,383	2,140
Placement of restricted bank deposits		(57,115)	(27,667)
Release of restricted bank deposits		71,460	20,353
Purchase of property, plant and equipment		(15,487)	(18,935)
Proceeds from disposal of property, plant and equipment		13,399	19,401
Additions of intangible assets	17	(5,583)	(8,434)
Purchase of available for sale investment	18	(348,600)	–
Acquisition of a subsidiary, net of cash and cash equivalents acquired	33	40,768	–
Purchase of listed equity securities at fair value	19	(13,499)	–
Dividends received from investments in securities	7(a)	21,058	–
Disposal of subsidiaries, net of cash and cash equivalents disposed of	23	249,718	–
Net cash used in investing activities		(40,498)	(13,142)
Financing activities			
Proceeds from new bank loans		174,985	94,761
Repayment of bank loans		(210,633)	(84,952)
Interest paid		(4,658)	(3,873)
Acquisition of non-controlling interests of a subsidiary		–	(380)
Payment for repurchase of shares	27(d)	(11,304)	(911)
Net cash (used in)/generated from financing activities		(51,610)	4,645
Net decrease in cash and cash equivalents		(187,797)	(3,567)
Cash and cash equivalents at the beginning of the year		649,306	615,663
Effect of foreign exchange rate changes		(25,545)	37,210
Cash and cash equivalents at the end of the year		435,964	649,306
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		435,964	647,356
Cash and cash equivalents classified as assets held for sale		–	1,950
Total cash and cash equivalents in the consolidated cash flow statement		435,964	649,306

The notes on pages 76 to 146 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 35. 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.

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. 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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 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 available-for-sale and 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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 22 to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative,* which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(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)*

(l) Intangible assets *(Continued)*

Internally-generated intangible assets – research and development expenditure *(Continued)*

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Patents	10 years
– Securities license	10 years
– Software	2-5 years
– Technology know-how	5 years

(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.

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 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).

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).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

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.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Derecognition

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Taxation *(Continued)*

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Leasing *(Continued)*

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Non-current assets held for sale *(Continued)*

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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:

(i) 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 2017 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").

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

Key sources of estimation uncertainty *(Continued)*

(ii) 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.

(iii) 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.

(iv) Impairment losses of non-current assets

In considering the impairment losses that may be required for certain of the Group's assets which include goodwill, property, plant and equipment, lease prepayments, and intangible assets, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flow generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and amount of operating costs.

(v) Fair value of financial instruments

For financial liabilities designated at fair value through profit or loss, the Group determines fair values using valuation techniques. Assumptions and inputs used in valuation techniques are based on observable market data at each end of reporting period.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the end of reporting period that would have been determined by market participants acting at arm's length.

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 shareholders. 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

Exposure to currency, liquidity and credit risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

Currency risk

The Group is exposed to currency risk primarily through inter-company payables and receivables within the Group that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily RMB.

	Assets		Liabilities	
	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000	**At 31 December 2017 RMB'000**	At 31 December 2016 RMB'000
RMB	**985,762**	808,428	**1,173,800**	1,144,341

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.

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 RMB9,402,000 for the year ended 31 December 2017 (2016: RMB16,796,000) 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.

5 FINANCIAL INSTRUMENTS *(Continued)*

Sensitivity analysis *(Continued)*

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.

Liquidity risk

The Group manages liquidity risk by monitoring the level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

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

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting 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 2017					
Non-derivative financial liabilities		**120,168**	**95,314**	**215,482**	**215,482**
Bank loans	**3.19**	**–**	**71,627**	**71,627**	**70,243**
		120,168	**166,941**	**287,109**	**285,725**
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

5 FINANCIAL INSTRUMENTS *(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 major 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 estimated by the Group's management based on prior experience and their assessment of the current and future economic 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 measurement

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments 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

5 FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurement *(Continued)*

(i) Financial assets measured at fair value *(Continued)*

Fair value hierarchy (Continued)

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into			Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Investment properties	14,200	–	14,200	–	14,700	–	14,700	–
Available-for-sale equity securities	321,079	–	321,079	–	–	–	–	–
Trading securities	–							
–Listed	21,571	21,571	–	–	–	–	–	–
–Unlisted	111,166	–	111,166	–	108,152	–	108,152	–

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: nil). 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.

5 FINANCIAL INSTRUMENTS *(Continued)*

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the Group's investment properties in Level 2 is determined by the directors on the basis of a valuation carried out on the reporting dates 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.

The fair value of the Group's available-for-sale investments in Level 2 is determined by the directors on the basis of a valuation carried out on the reporting dates by Hai Tong Asset Management (HK) Limited, which is the manager of the investment, who is a recognisable and professional asset management company. The valuation was made with reference to recent transaction price of the Haitong Freedom Multi-Tranche Bond Fund, which is an observable input in the market.

The fair value of the Group's financial asset at fair value through profit or loss in Level 2 is determined by the directors on the basis of a valuation carried out on the reporting dates by China Asset Management Co., Ltd. ("China AMC", as asset manager) and China Construction Bank Corporation ("CCBC", as asset custodian) who are recognisable and professional asset management companies. The valuation was made with reference to recent transaction price of the overseas assets management plan operated by China AMC, which is an observable input in the market.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2016 and 2017.

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:

People's Republic of China ("PRC") lighting segment	–	research and development, manufacture of lighting products in the PRC and distribution of lighting products in the PRC and overseas
United States of America ("USA") lighting segment	–	provision of lighting solutions in the USA
Securities segment	–	asset management services, investment advisory services and securities trading

During the year ended 31 December 2017, the chief operating decision maker of the Group changed the structure of internal reports they review regularly in allocating resources to segments and in assessing their performance as a result of the acquisition of Tongfang Securities Limited ("Tongfang Securities", formerly known as "Buttonwood Finance Limited") (see note 33). Accordingly, the Group has restated the operating segment information for the year ended 31 December 2016.

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

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	PRC lighting segment		USA lighting segment		Securities segment		Total	
For the year ended	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**214,787**	236,016	**414,520**	375,227	**36,417**	–	**665,724**	611,243
Inter-segment revenue	**11,810**	29,360	**–**	–	**–**	–	**11,810**	29,360
Reportable segment revenue	**226,597**	265,376	**414,520**	375,227	**36,417**	–	**677,534**	640,603
Reportable segment profit	**92,299**	1,593	**15,451**	35,054	**35,420**	–	**143,170**	36,647
As at 31 December								
Reportable segment assets	**852,468**	775,216	**257,037**	263,805	**628,287**	–	**1,737,792**	1,039,021
Reportable segment liabilities	**123,422**	211,883	**85,498**	99,608	**107,026**	–	**315,946**	311,491

(b) Reconciliations of reportable segment profit or loss

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Reportable segment profit derived from Group's external customers	**143,170**	36,647
Unallocated expenses	**(17,763)**	(19,485)
Unallocated other gains and losses	**912**	1,641
Profit before taxation	**126,319**	18,803

Segment profit represents the profit incurred by each segment without allocation of unallocated expenses, certain other gains or losses and expenses. This is the measure reported to the board of directors of the Company for the purposes of resource allocation and performance assessment.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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 and goodwill ("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 and the location of the operation to which they are allocated.

	Revenues from external customers		Specified non-current assets	
			31 December	31 December
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
North America	**527,857**	456,201	**47,769**	32,978
Europe	**41,159**	64,109	**160**	9,729
PRC	**28,592**	24,885	**236,644**	138,476
Asia (excluding PRC)	**65,380**	53,764	**49,348**	55,096
Other countries	**2,736**	12,284	**–**	–
	665,724	611,243	**333,921**	236,279

Information about major customers

There were no customers who individually contribute over 10% of the total revenues of the Group for the year ended 31 December 2017 and 2016.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

	PRC lighting segment RMB'000	USA lighting segment RMB'000	Securities segment RMB'000	Consolidated RMB'000
Year ended 31 December 2017				
Additions to non-current segment assets	**9,072**	**1,560**	**141,954**	**152,586**
Depreciation and amortisation	**18,827**	**4,621**	**1,910**	**25,358**
Net (allowance)/reversal of allowance for bad and doubtful debts	**(1,656)**	**288**	**–**	**(1,368)**
Gain on disposal of property, plant and equipment and prepaid lease payments	**496**	**–**	**–**	**496**
Year ended 31 December 2016				
Additions to non-current segment assets	30,974	7,813	–	38,787
Depreciation and amortisation	30,193	4,683	–	34,876
Net reversal of allowance/(allowance) for bad and doubtful debts	6,086	(873)	–	5,213
Gain on disposal of property, plant and equipment and prepaid lease payments	2,421	–	–	2,421

7(a) OTHER INCOME

	2017 RMB'000	2016 RMB'000
Interest income from bank deposits	**3,383**	2,140
Dividend income from available-for-sale investments	**21,058**	–
Government grants	**5,515**	1,605
Rental income from operating leases	**4,191**	2,179
Others	**1,711**	5,733
	35,858	11,657

7(b) OTHER GAINS AND LOSSES

	2017 RMB'000	2016 RMB'000
Gain on disposal of subsidiaries (note 23)	**110,649**	298
Fair value change on financial assets at fair value through profit or loss	**11,614**	2,772
Fair value change on investment properties	**500**	–
Gain on disposal of property, plant and equipment	**496**	2,421
Net (allowance)/reversal of allowance for bad and doubtful debts	**(1,368)**	5,213
Impairment loss on available-for-sale equity securities	**315**	14
Net exchange (loss)/gain	**(16,097)**	18,523
Others	**(735)**	(1,183)
	105,374	28,058

8 FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	**4,658**	3,873

9 PROFIT BEFORE TAXATION

	2017 RMB'000	2016 RMB'000
Profit before taxation is arrived at after charging:		
Directors' remuneration	**1,944**	1,793
Equity-settled share based payment expenses	**1,601**	2,718
Salaries, wages and other benefits	**124,915**	135,835
	128,460	140,346
Depreciation (note 14)	**19,425**	30,321
Amortisation		
– prepaid lease payments (note 15)	**804**	999
– intangible assets (note 17)	**5,129**	3,556
Net allowance/(reversal of allowance) for bad and doubtful debts	**1,368**	(5,213)
Impairment loss on available-for-sale equity securities (note 18)	**315**	14
Auditor's remuneration		
– audit service	**2,310**	3,627
– non-audit services	**387**	221
	2,697	3,848
Cost of inventories (note 20)	**452,235**	422,883
Research and development expenditure recognised as an expense	**484**	590
Operating lease rentals in respect of rented premises	**9,707**	7,387
And after crediting:		
Property rental income before deduction of negligible outgoings	**(4,191)**	(2,179)

10 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' remuneration disclosed pursuant to section 383(1) of the new Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December 2016						
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share based payments (note) RMB'000	Total RMB'000
Executive directors							
– Mr. Seah Han Leong	–	1,083	–	–	1,083	195	1,278
– Mr. Fan Xin (resigned on 15 July 2016)	–	–	–	–	–	–	–
– Mr. Wang Liang Hai (resigned on 15 July 2016)	–	–	–	–	–	–	–
– Mr. Pan Jin (resigned on 15 July 2016)	–	72	–	–	72	–	72
– Mr. Ben Fan (resigned on 20 January 2016)	–	14	–	–	14	–	14
Independent non-executive directors							
– Mr. Fan Ren Da, Anthony	208	–	–	–	208	–	208
– Mr. Liu Tian Min	208	–	–	–	208	–	208
– Ms. Li Ming Qi	208	–	–	–	208	–	208
Non-executive director							
– Mr. Huang Yu (appointed on 15 July 2016)	–	–	–	–	–	–	–
– Mr. Liu Wei Dong	–	–	–	–	–	–	–
– Mr. Wang Liang Hai (appointed on 15 July 2016)	–	–	–	–	–	–	–
	624	1,169	–	–	1,793	195	1,988

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

	Year ended 31 December 2017						
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share based payments (note) RMB'000	Total RMB'000
Executive director							
– Mr. Seah Han Leong	–	1,320	–	–	1,320	151	1,471
Independent non-executive directors							
– Mr. Fan Ren Da, Anthony	208	–	–	–	208	–	208
– Mr. Liu Tian Min	208	–	–	–	208	–	208
– Ms. Li Ming Qi	208	–	–	–	208	–	208
Non-executive director							
– Mr. Huang Yu (appointed on 15 July 2016)	–	–	–	–	–	–	–
– Mr. Liu Wei Dong	–	–	–	–	–	–	–
– Mr. Wang Liang Hai (appointed on 15 July 2016)	–	–	–	–	–	–	–
	624	1,320	–	–	1,944	151	2,095

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(s) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting. The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 28.

During 2016 and 2017, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out below as an inducement to join or upon joining the Group or as compensation for loss of office.

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

Of the five individuals with the highest emoluments, one (2016: one) of them is a director whose emoluments are listed above. The aggregate of the emoluments in respect of the other four (2016: four) individuals are as follows:

	2017 **RMB'000**	2016 RMB'000
Employees		
– Basic salaries and allowances	**2,338**	2,344

The emoluments of the four (2016: four) individuals with the highest emoluments are within the following bands:

	2017	2016
Up to HK$1,000,000	**4**	4

During the year ended 31 December 2017 and 2016, 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

	2017 **RMB'000**	2016 RMB'000
Taxation in the consolidated statement of comprehensive income represents:		
Provision for the year	**3,201**	15,294
Deferred taxation (note 26)	**2,637**	(8,233)
	5,838	7,061

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 the PRC Enterprise Income Tax at 25% for the year ended 31 December 2017 and 2016, except that one entity is entitled to preferential tax rate of 15% as it is officially endorsed as High-New Technology Enterprise till 9 November 2020.

11 TAXATION *(Continued)*

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 2017 and 2016. On 22 December 2017, President Trump signed into law the "Tax Cuts and Jobs Act," or the TCJA, which significantly amends the Code. The TCJA, among other things, reduces the U.S. corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limits the tax deduction for interest expense to 30% of adjusted earnings, eliminates net operating loss carrybacks, imposes a one-time tax on offshore earnings at reduced rates regardless of whether they are repatriated, allows immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifies or repeals many business deductions and credits.

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 2017 and 2016.

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 2017 and 2016.

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 RMB4,388,000) 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 RMB4,535,000) relating to the year of assessment 2006/07, that is, for the financial year ended 31 December 2006, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

On 14 March 2014, the IRD additionally issued estimated profits tax assessments in aggregate of HK$28,425,000 (approximately equivalent to RMB23,760,000) 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 RMB29,957,000) relating to the year of assessment 2008/09, that is, for the financial year ended 31 December 2008, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

On 31 December 2015, the IRD additionally issued protective profits tax assessments in aggregate of HK$24,288,000 (approximately equivalent to RMB20,302,000) 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.

11 TAXATION *(Continued)*

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

On 29 December 2016, the IRD additionally issued protective profits tax assessments in aggregate of HK$47,305,500 (approximately equivalent to RMB39,543,000) relating to the year of assessment 2010/11, that is, for the financial year ended 31 March 2011, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

On 28 December 2017, the IRD additionally issued protective profits tax assessments in aggregate of HK$2,779,500 (approximately equivalent to RMB2,323,000) relating to the year of assessment 2011/12, that is, for the financial year ended 31 March 2012, against certain subsidiaries of the Company. The Group lodged objections to the IRD against these protective assessments.

As at 31 December 2017, the IRD had issued protective profits tax assessments in an aggregate amount of HK$149,311,000 (approximately equivalent to RMB124,809,000) for the years of assessment from 2005/06 to 2011/12. The Group has lodged objections against these protective profits tax 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$35,450,000 (approximately equivalent to RMB29,633,000), which has been recorded as tax reserve certificates in the consolidated statement of financial position as at 31 December 2017.

The directors of the Company are of the opinion that no Hong Kong profits tax is payable by the Group as the subsidiaries in question did not carry on 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:

	2017 RMB'000	2016 RMB'000
Profit before taxation	**126,319**	18,803
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**7,638**	13,308
Tax effect of non-deductible expenses	**1,142**	70
Tax effect of non-taxable income	**(8,461)**	(9,189)
Tax effect of unused tax losses not recognised	**10,767**	10,622
Tax effect of utilisation of tax losses not recognised in previous years	**(7,825)**	(7,750)
Effect of change in tax rate	**2,577**	–
Actual tax expense	**5,838**	7,061

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:

	2017 RMB'000	2016 RMB'000
Profit for year attributable to owners of the Company	**120,375**	11,778

Weighted average number of ordinary shares:

	Number of shares 2017 '000	 2016 '000
Issued ordinary shares at 1 January	**1,938,320**	1,939,319
Effect of shares repurchased (note 27(d))	**(2,559)**	(293)
Effect of issuance of new shares (note 27(b))	**167,517**	–
Weighted average number of ordinary shares at 31 December	**2,103,278**	1,939,026

The computation of diluted earnings per share did not assume the exercise of the equity-settled share options because they are antidilutive for the year ended 31 December 2017 and 2016.

13 INVESTMENT PROPERTIES

	Properties held under medium-term leases in the PRC (note 5) RMB'000
At 1 January 2016 and 31 December 2017	14,700
Decrease in fair value recognised in profit or loss	(500)
At 31 December 2017	14,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

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 2016	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	3,975	30,353
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	358,477	1,315,773
Currency realignment	(6,411)	(2,154)	(1,844)	(531)	(1,689)	(5,334)	(17,963)
Additions	–	6,112	5,122	111	359	2,741	14,445
Disposals	(10,797)	(4,345)	(316)	(450)	(15,567)	(98,178)	(129,653)
At 31 December 2017	456,924	67,584	285,445	13,087	101,856	257,706	1,182,602
Depreciation and impairment							
At 1 January 2016	(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)
Currency realignment	4,271	1,845	1,664	318	1,683	5,246	15,027
Charge for the year	(6,862)	(4,290)	(2,988)	(499)	(1,143)	(3,643)	(19,425)
Eliminated on disposals	1,529	1,289	146	471	15,418	97,897	116,750
At 31 December 2017	(373,227)	(59,920)	(275,863)	(9,151)	(98,125)	(235,922)	(1,052,208)
Carrying values							
At 31 December 2016	101,967	9,207	7,798	4,516	4,670	23,055	151,213
At 31 December 2017	83,697	7,664	9,582	3,936	3,731	21,784	130,394

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:

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 2017, certain property certificates of the Group's properties with an aggregate net book value of RMB48,000 were yet to be obtained (2016:RMB3,049,000).

15 PREPAID LEASE PAYMENTS

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Carrying value		
At the beginning of the year	**31,863**	38,097
Currency realignment	**(590)**	536
Amortisation for the year	**(804)**	(999)
Reclassification to assets held for sale	**–**	(5,771)
At the end of the year	**30,469**	31,863

16 GOODWILL

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Balance at beginning of the year	**8,663**	8,109
Additions (note 33(c))	**121,948**	–
Currency realignment	**(7,157)**	554
At the end of the year	**123,454**	8,663

16 GOODWILL *(Continued)*

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment as follows:

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
USA lighting segment (note (i))	**8,161**	8,663
Securities segment (note (ii))	**115,293**	–
At the end of the year	**123,454**	8,663

(i) USA lighting segment

The recoverable amount of the CGU of USA lighting segment 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 3% (2016: 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 11.2% (2016: 13.6%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(ii) Securities segment

The recoverable amount of the CGU of securities segment 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 2% 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 25%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

17 INTANGIBLE ASSETS

	Patent RMB'000	Securities licenses RMB'000	Software RMB'000	Technology know-how RMB'000	Total RMB'000
Cost					
At 1 January 2016	106,144	–	175	8,840	115,159
Currency realignment	7,153	–	–	–	7,153
Additions	–	–	1,015	–	1,015
Additions through internal development	–	–	–	7,419	7,419
Disposals	(57,522)	–	–	–	(57,522)
Reclassification to assets held for sale	–	–	(4)	–	(4)
At 31 December 2016	55,775	–	1,186	16,259	73,220
Currency realignment	(6,264)	(1,237)	(61)	–	(7,562)
Additions	–	418	124	–	542
Additions through acquisition of a subsidiary	–	10,610	–	–	10,610
Additions through internal development	–	–	–	5,041	5,041
At 31 December 2017	49,511	9,791	1,249	21,300	81,851
Depreciation and impairment					
At 1 January 2016	(91,288)	–	(18)	–	(91,306)
Currency realignment	(5,468)	–	(573)	–	(6,041)
Charge for the year	(2,074)	–	(369)	(1,113)	(3,556)
Eliminated on disposals	57,522	–	–	–	57,522
Reclassification to assets held for sale	–	–	1	–	1
At 31 December 2016	(41,308)	–	(959)	(1,113)	(43,380)
Currency realignment	1,111	872	79	–	2,062
Charge for the year	(1,349)	(1,061)	(300)	(2,419)	(5,129)
At 31 December 2017	(41,546)	(189)	(1,180)	(3,532)	(46,447)
Carrying values					
At 31 December 2016	14,467	–	227	15,146	29,840
At 31 December 2017	7,965	9,602	69	17,768	35,404

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

18 AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Unlisted available-for-sale equity securities: Current assets (note 5)		
At 1 January	–	–
Payment for purchase (note (i))	348,600	–
Net unrealised loss recognised in other comprehensive income during the period	(13,285)	–
Currency realignment	(14,236)	–
At 31 December	321,079	–
Unlisted available-for-sale equity securities: Non-current assets (note (ii))		
At 1 January	3,639	3,653
Impairment loss recognised in profit or loss during the period	(315)	(14)
At 31 December	3,324	3,639
	324,403	3,639

(i) On 16 June 2017, Tongfang Securities, a wholly-owned subsidiary of the Company, entered into a discretionary client agreement with Hai Tong Asset Management (HK) Limited ("Investment Manager"), pursuant to which the Investment Manager has agreed to subscribe for 374,448.04 HK$ Class R1A Shares in the Haitong Freedom Multi-Tranche Bond Fund (the "Fund") for and on behalf of Tongfang Securities at the consideration of HK$400,000,000 (equivalent to approximately RMB348,600,000) (the "Investment Amount").

The Fund will invest all or substantially all of its assets, to the extent not retained in cash to meet operating expenses, in the shares of the Haitong Freedom Multi-Tranche Master Bond Fund (the "Master Fund"). The Master Fund will primarily invest in fixed income securities such as government, corporate or convertible bonds, private placement debt, notes linked to fixed income instruments or preferred shares, other bond funds, money market funds or cash. The Master Fund may invest in debt securities that are rated below investment grade or which are unrated by any relevant agency.

At 31 December 2017, the above investments were classified as available-for-sale with a fair value of HK$384,107,000 (equivalent to approximately RMB321,079,000) that are held for short-term purposes.

Subsequent to the end of the reporting period, the Investment Manager has redeemed certain interest in the Fund in the amount of HK$370,000,000 (equivalent to approximately RMB309,283,000), for and on behalf of Tongfang Securities pursuant to its discretionary authority under the discretionary client agreement on 9 February 2018.

18 AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

(ii) 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

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Equity securities at fair value (note 5)		
– Listed (note (i))	**21,571**	–
– Unlisted (note (ii))	**111,166**	108,152
	132,737	108,152

(i) On 28 August 2017, Tongfang Asset Management (Cayman) Company Limited ("Tongfang Asset Management"), a wholly-owned subsidiary of the Company, entered into a subscription agreement with Z-OBEE HOLDINGS LIMITED, ("Z-OBEE", a Hong Kong listed company, stock code: 948), pursuant to which Tongfang Asset Management has agreed to acquire an aggregate of 12,711,719 new ordinary shares (equivalent to 4.99% of the enlarged share capital of Z-OBEE) at the issue price of HK$1.248 (equivalent to RMB1.06) per ordinary share. Completion of the above share subscriptions took place on 27 November 2017.

(ii) 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 AMC and CCBC, 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.

20 INVENTORIES

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Raw materials	**18,421**	38,757
Work in progress	**35,779**	51,382
Finished goods	**123,195**	94,177
	177,395	184,316

At 31 December 2017, certain finished goods with a carrying value of approximately RMB20,057,000 (31 December 2016: RMB32,250,000) 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:

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	**445,773**	418,888
Write down of inventories	**6,462**	3,995
	452,235	422,883

21 TRADE AND OTHER RECEIVABLES

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Trade receivables:		
– due from related parties	4,667	4,260
– due from third parties	168,562	144,881
Bills receivable	10,190	11,815
Less: allowance for bad and doubtful debts	(46,312)	(47,450)
	137,107	113,506
Deposits paid to suppliers	13,916	21,079
Value added tax recoverable	35,193	33,656
Value added tax refundable on export sales	3,905	3,446
Other receivables	18,847	7,243
	208,968	178,930

Payment terms with customers are mainly on credit. 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 2017 RMB'000	At 31 December 2016 RMB'000
0 to 60 days	87,539	72,292
61 to 90 days	6,461	12,828
91 to 180 days	19,129	10,473
Over 180 days	23,978	17,913
	137,107	113,506

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 2017 RMB'000	At 31 December 2016 RMB'000
Neither past due nor impaired	**113,129**	95,593
Less than 6 months past due	**11,714**	7,204
	124,843	102,797

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.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	47,450	61,924
Net impairment loss recognised/(reversed)	1,368	(5,213)
Uncollectible amounts written off	(2,506)	(2,944)
Reclassification to assets held for sale	–	(6,317)
At the end of the year	46,312	47,450

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

At 31 December 2017, certain trade receivables with a carrying value of approximately RMB33,336,000 (2016: RMB46,226,000) were pledged to certain banks to secure the credit facilities granted to the Group.

22 RESTRICTED BANK DEPOSITS, CASH HELD ON BEHALF OF CLIENTS AND CASH AND CASH EQUIVALENTS

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

Cash held on behalf of clients represent segregated client accounts with licensed banks to hold client monies from normal business transaction in connection with the company's asset management services. As at 31 December 2017, segregated client accounts not otherwise dealt with in these financial statements amounted to HK$108,051,000 (equivalent to approximately RMB90,321,000).

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

Reconciliation of liabilities arising from financing activities

	Bank borrowings RMB'000
At 1 January 2017	110,967
Changes from financing cash flows:	
Proceeds from new bank loans	174,985
Repayment of bank loans	(210,633)
Interest paid	(4,658)
Total changes from financing cash flows	(40,306)
Exchange adjustments	(5,076)
Other changes:	
Interest expense	4,658
At 31 December 2017	70,243

23 ASSETS AND LIABILITIES HELD FOR SALE/DISPOSAL OF SUBSIDIARIES

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, Shanghai Cuineng Photoelectricity Science and Technology Co., Ltd and Tianjin Zhenmingli Photoelectricity Co., Ltd (collectively the "Disposal Group") at a consideration of RMB251,668,000.

On 31 December 2016, the Disposal Group was available for immediate sale in its present condition. The above transactions were completed in February 2017, resulting in a gain of RMB110,649,000 which was mainly due to the appreciation of the land use rights owned by the Disposal Group and has been recorded in the PRC lighting segment. 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 as at 31 December 2016.

24 TRADE AND OTHER PAYABLES

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Accounts payable to securities clients	**90,321**	–
Trade payables	**55,771**	71,613
Bills payable	**24,669**	21,935
Payroll and welfare payables	**3,959**	9,808
Other payables	**44,211**	42,680
Financial liabilities measured at amortised cost	**218,931**	146,036
Customers' deposits	**11,866**	13,433
Other taxes payable	**4,030**	4,077
	234,827	163,546

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 2017 RMB'000	At 31 December 2016 RMB'000
0 to 60 days	**57,408**	58,926
61 to 90 days	**2,963**	4,236
91 to 180 days	**53**	873
181 to 360 days	**3,469**	2,094
More than 360 days	**16,547**	27,419
	80,440	93,548

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 2017 RMB'000	At 31 December 2016 RMB'000
Bank borrowings repayable within one year		
– secured	**70,243**	32,951
– unsecured	**–**	78,016
	70,243	110,967

At 31 December 2017, included in the above bank borrowings were fixed-rate bank borrowings of RMB32,671,000 (2016: RMB32,951,000), which were repayable within one year. All of the bank borrowings are carried at amortised cost.

At 31 December 2017 and 2016, none of the Group's bank borrowings were subject to the fulfilment of covenants.

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

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Contracted interest rates (per annum)		
Fixed-rate borrowings	**2.92% ~4.35%**	1.55% ~4.35%
Variable-rate borrowings	**2.76% ~4.50%**	2.76% ~4.50%

26 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	Others RMB'000	Total RMB'000
At 1 January 2016	(2,763)	(1,243)	9	(3,997)
Credited/(charged) to profit or loss	–	764	7,469	8,233
Currency realignment	(187)	(183)	247	(123)
At 31 December 2016	(2,950)	(662)	7,725	4,113
Generated from acquisition of a subsidiary (note 33(b))	–	(1,751)	–	(1,751)
Credited/(charged) to profit or loss	–	576	(3,213)	(2,637)
Currency realignment	193	138	(336)	(5)
At 31 December 2017	(2,757)	(1,699)	4,176	(280)

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

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	6,179	7,063
Net deferred tax liabilities recognised in the consolidated statement of financial position	(6,459)	(2,950)
	(280)	4,113

26 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

(b) Deferred tax assets not recognised

At 31 December 2017, 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 RMB488,913,000 (2016: RMB537,702,000) 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 RMB215,251,000 which will not expire under the relevant tax legislation, the remaining unused tax losses carried forward of RMB19,538,000, RMB151,909,000, RMB41,284,000 and RMB33,683,000, RMB27,248,000 will expire in 2019, 2020, 2021, 2022 and 2023, respectively, if unused.

(c) Deferred tax liabilities not recognised

At 31 December 2017, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB53,691,000 (2016: RMB39,723,000). 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.

27 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 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
Share repurchased and cancelled	(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

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(a) Movements in components of equity *(Continued)*

	Share capital RMB'000	Treasury shares 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 2017	171,808	–	2,264,017	344	55,238	50,024	5,361	(501,565)	(8,220)	(832,781)	1,204,226
Changes in equity for 2017											
Loss for the year	–	–	–	–	–	–	–	–	–	(6,104)	(6,104)
Other comprehensive income	–	–	–	–	–	–	–	60,817	–	–	60,817
Total comprehensive income	–	–	–	–	–	–	–	60,817	–	(6,104)	54,713
Issuance of new shares	15,670	–	166,098	–	–	–	–	–	–	–	181,768
Share repurchased and cancelled (note 27(d))	–	(11,304)	–	–	–	–	–	–	–	–	(11,304)
Cancellation of treasury shares	(566)	5,004	(5,004)	566	–	–	–	–	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	–	–	744	–	–	–	744
	15,104	(6,300)	161,094	566	–	–	744	–	–	–	171,208
At 31 December 2017	186,912	(6,300)	2,425,111	910	55,238	50,024	6,105	(440,748)	(8,220)	(838,885)	1,430,147

27 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
		HK$'000		RMB'000
Ordinary shares of par 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
Issuance of new shares	–	–	177,227,723	15,670
Share repurchased and cancelled	–	–	(6,384,000)	(566)
– at 31 December 2017	5,000,000,000	500,000	2,109,163,417	186,912

On 20 January 2017, an aggregate of 177,227,723 new ordinary shares were issued as the consideration for the acquisition of Tongfang Securities (note 33).

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

(c) Dividends

The directors of the Company did not recommend the payment of a dividend for the years ended 31 December 2017 and 2016.

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Treasury shares

	2017	
	Number of shares	Amounts RMB'000
Treasury shares		
At 1 January	–	–
Shares repurchased to be cancelled	15,328,000	11,304,000
Cancellation of treasury shares	(6,384,000)	(5,004,000)
At 31 December	8,944,000	6,300,000

During the year ended 31 December 2017, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
January 2017	200,000	1.15	1.12	230,000
August 2017	1,898,000	0.80	0.77	1,497,000
September 2017	3,638,000	0.97	0.80	3,366,000
October 2017	648,000	0.85	0.83	548,000
November 2017	2,374,000	0.85	0.77	1,901,000
December 2017	6,570,000	0.85	0.70	5,199,000
				12,741,000

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Nature and purpose of reserves

(i) The application of the share premium is governed by section 48B of the Hong Kong Companies Ordinance.

(ii) Capital redemption reserve comprises the amount by which the issued share capital of the Company is diminished through the cancellation of shares.

(iii) Special reserve comprises 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.

(iv) Share compensation reserve comprises 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.

(v) Share options reserve represents the fair value of share options granted to directors and employees of the Group in accordance with the accounting policy adopted for share based payment in note 2(s).

(vi) Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

(vii) Fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities and is dealt with in accordance with the accounting policies in note 2(o) and 2(p).

(viii) Other reserve comprises: (i) the difference between the consideration paid for acquiring additional interests in subsidiaries of the Company and the amount of interests acquired; and (ii) the difference between the cash received on exercise of share options plus the amount included in equity from the recognition of the compensation cost and the non-controlling interest measured at the proportionate interest in subsidiary's equity as measured in the Group's consolidated financial statements.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Share option scheme of the Company

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 par value of the Company's share.

(Expressed in RMB unless otherwise indicated)

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

Share option scheme of the Company *(Continued)*

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

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 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		

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

	31 December 2017		31 December 2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	**HK$1.31**	**23,600,000**	HK$1.31	33,000,000
Forfeited during the period	**HK$1.31**	**(1,300,000)**	HK$1.31	(9,400,000)
Outstanding at the end of the period	**HK$1.31**	**22,300,000**	HK$1.31	23,600,000
Exercisable at the end of the period	**HK$1.31**	**22,300,000**	HK$1.31	11,800,000

The options outstanding at 31 December 2017 had an exercise price of HK$1.31 (2016: HK$1.31) and a weighted average remaining contractual life of 2.88 years (2016: 3.88 years).

(Expressed in RMB unless otherwise indicated)

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

Share option scheme of a subsidiary of the Company

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

On 27 April 2017, 1,401 share options were granted to certain employees and directors of the Company. The closing price immediately before the date on which the options were granted was US$405 per share.

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

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

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 30 June 2015	217	One year from the date of grant	9 years
– on 30 June 2015	217	Two years from the date of grant	8 years
– on 30 June 2015	292	Three years from the date of grant	7 years
– on 27 April 2017	360	One year from the date of grant	9 years
– on 27 April 2017	360	Two years from the date of grant	8 years
– on 27 April 2017	481	Three years from the date of grant	7 years
Options granted to employees:			
– on 30 June 2015	642	One year from the date of grant	9 years
– on 30 June 2015	642	Two years from the date of grant	8 years
– on 30 June 2015	859	Three years from the date of grant	7 years
– on 27 April 2017	60	One year from the date of grant	9 years
– on 27 April 2017	60	Two year from the date of grant	8 years
– on 27 April 2017	80	Three year from the date of grant	7 years
Total share options granted	4,270		

(Expressed in RMB unless otherwise indicated)

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

Share option scheme of a subsidiary of the Company *(Continued)*

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

	31 December 2017		31 December 2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	**US$330**	**2,231**	US$330	2,830
Addition during the period	**US$405**	**1,401**	–	–
Exercised during the period	**US$330**	**(853)**	–	–
Forfeited during the period	**US$330**	**(54)**	US$330	(599)
Outstanding at the end of the period	**US$369**	**2,725**	US$330	2,231
Exercisable at the end of the period	**US$330**	**450**	US$330	859

The options outstanding at 31 December 2017 had an average exercise price of US$369 (2016: US$330) and a weighted average remaining contractual life of 8.44 years (2016: 8.5 years).

(c) Fair value of share options and assumptions

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

Fair value at measurement date	US$152.66
Share price	US$405
Exercise price	US$405
Expected volatility	22.80%
Option life	10 years
Expected dividends	0%
Risk-free interest rate	2.55%

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

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

29 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 2017 RMB'000	At 31 December 2016 RMB'000
Within one year	7,536	4,019
In the second to fifth year inclusive	6,842	9,742
	14,378	13,761

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

30 CAPITAL COMMITMENTS

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

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
– acquisition of property, plant and equipment	4,569	1,773

31 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. 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.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with the controlling shareholder and its subsidiaries

	2017 RMB'000	2016 RMB'000
Sales of products (Note)	**2,487**	8,443
Consideration received from disposal of subsidiaries (note 23)	**251,668**	–

Note:

The outstanding balances related to these transactions are unsecured, interest free and have no fixed repayment terms, which are presented and included in "Trade and other receivables" (note 21)

(b) Key management personnel remuneration

The Company's directors represented the Group's key management and their emoluments for the year ended 31 December 2017 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 32 (a) above, the Group also had 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 32 (a) above constitute 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.

33 ACQUISITION OF A SUBSIDIARY

On 20 January 2017, the Group acquired the entire issued share capital of Tongfang Securities. From 20 January 2017 to 31 December 2017, Tongfang Securities contributed revenue of RMB36,417,000 and profit of RMB35,420,000 to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that consolidated revenue of the Group would have been RMB666,370,000, and consolidated profit for the year would have been RMB119,148,000. In determining these amounts, management has assumed the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

(a) Consideration transferred

On 20 January 2017, an aggregate of 177,227,723 new ordinary shares were issued (note 27 (b)) as the consideration for the acquisition of Tongfang Securities.

The fair value of the ordinary shares issued was HK$205,584,000 (equivalent to approximately RMB181,768,000) which was based on the listed share price of the Company on 20 January 2017 of HK$1.16 per share.

(b) Identifiable assets acquired and liabilities assumed

The following table summarised the fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition.

	RMB'000
Intangible assets	10,610
Property, plant and equipment	3,016
Cash and cash equivalents	40,768
Other current assets	28,734
Deferred tax liabilities	(1,751)
Trade and other payable	(21,557)
Total identifiable net assets acquired	59,820

33 ACQUISITION OF A SUBSIDIARY *(Continued)*

(b) Identifiable assets acquired and liabilities assumed *(Continued)*

Measurement of fair values

(i) Property, plant and equipment

Cost technique: The valuation model considers depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

(ii) Intangible assets

Market comparison technique: The valuation model considers the past sales of similar assets as well as the market value of publicly traded assets that have an equivalent business model or nature to the assets being valued. To get a more accurate valuation, more than one comparable transaction should be used. This method of valuation can help identify the current value and potential growth for an asset. Essentially, a comparable analysis is a less-sophisticated version of a formal, professional appraisal.

(c) Goodwill

Goodwill arising from the acquisition has been recognised as follows.

	RMB'000
Consideration transferred	181,768
Fair value of identifiable net assets	(59,820)
Goodwill	121,948

The goodwill is attributable mainly to the skills and technical talent of Tongfang Securities's work force. None of the goodwill recognised is expected to be deductible for tax purposes.

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Assets and liabilities		
Interests in subsidiaries	**1,430,445**	749,293
Cash and cash equivalents	**5,293**	460,658
Other current liabilities	**(5,591)**	(5,725)
Net assets	**1,430,147**	1,204,226
Capital and reserves		
Share capital	**186,912**	171,808
Reserves	**1,243,235**	1,032,418
Total equity	**1,430,147**	1,204,226

35 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.

				Proportion of ownership interest			
Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Particulars of issued and paid up capital/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Heshan Tongfang Lighting Technology Company Limited	Wholly foreign owned enterprise	PRC	US$300,000,000	100%	–	100%	Manufacture and sales of lighting products
Star Bright International (Macao Commercial Offshore) Ltd.	Incorporated	Macau	MOP100,000	100%	–	100%	Trading of lighting products
Tongfang Securities Limited	Incorporated	Hong Kong	HK$450,000,000	100%	–	100%	Asset management services, investment advisory services and securities trading
American Lighting, Inc.	Incorporated	USA	US$7,944,505	100%	–	100%	Lighting solutions provider
Tivoli, LLC.	Partnership	USA	US$4,500,000	100%	–	100%	Lighting solutions provider

(Expressed in RMB unless otherwise indicated)

36 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2017, 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.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 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
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
Amendments to HKAS 40, Investment property: Transfers of investment property	1 January 2018
HK(IFRIC) 22, Foreign currency transactions and advance consideration	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, new standards and interpretations 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. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(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, including the measurement of impairment for financial assets and hedge accounting. 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 and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

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 interest revenue, impairment 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.

The Group has assessed 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.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9, Financial instruments *(Continued)*

(a) Classification and measurement *(Continued)*

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group plans not to elect this designation option for any of the investments held on 1 January 2018 and will recognise any fair value changes in respect of these investments in profit or loss as they arise. This will give rise to a change in accounting policy as currently the Group recognises the fair value changes of available-for-sale equity investments in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in notes 2(o). This change in policy will have no impact on the Group's net assets and total comprehensive income, but will increase volatility in profit or loss.

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 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 will not have any impact on the Group on adoption of HKFRS 9.

(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 either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, The Group modified impairment measurement method according to the new impairment requirement, but it had no material effect on the amount of impairment loss.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

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.

Based on the assessment completed to date, the group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(g). Currently, revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers. The current practice in line with the HKFRS 15. The Group has assessed that the new revenue standard is not likely to have significant impact on the timing of revenue recognition.

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:

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

(ii) 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;

(iii) 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.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(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, which is currently not common in the Group's arrangements with its customers. Currently, 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. The Group has assessed that the new revenue standard is not likely to have significant impact.

(c) Sales with a right of return

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

The Group has assessed 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.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of “open” contracts for sales of LED products at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of HKFRS 15 will not be material. However the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

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.

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 property, 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 profit or loss over the period of the lease. As disclosed in note 29, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB14,378,000 for properties. Among which RMB6,842,000 is payable after 1 year but within 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.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

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 15 Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong on 15 May 2018 at 4:00 p.m., or where the context so admits, any adjournment thereof
"American Lighting"	means American Lighting, Inc., a Delaware corporation and an indirectly wholly-owned subsidiary of the Company
"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
"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
"Companies (WUMP) Ordinance"	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Company"	means Neo-Neon Holdings Limited (stock code: 1868), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange, and part of shares of which are listed on the Taiwan Stock Exchange as depositary receipts
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholders"	has the meaning ascribed thereto in the Listing Rules
"Corporate Governance Code"	code on corporate governance practices contained in Appendix 14 to the Listing Rules

DEFINITIONS

"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"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
"Listing Rules"	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
"Model Code"	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules
"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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in sections 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Subsidiary Share Incentive Plan"	means American Lighting's share incentive plan adopted by the Shareholders on 2 April 2015
"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)
"%"	per cent.