清华同方
TSINGHUA TONGFANG

Neo-Neon®

NEO-NEON HOLDINGS LIMITED

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

2018 ANNUAL REPORT

online + offline

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Seah Han Leong
Mr. Daniel P.W. Li

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. Daniel P.W. Li
Mr. Wang Liang Hai
Mr. Liu Wei Dong
Mr. Liu Tian Min
Ms. Li Ming Qi

AUTHORISED 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

Ernst & Young
22/F CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

CORPORATE INFORMATION

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 Guangdong Branch
Heshan Sub-branch
Taishin International Bank, Hong Kong Branch
China Everbright Bank Jiangmen Branch
Guangdong Heshan Rural Commercial Bank Company Limited

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 (the "Board") of directors (the "Directors") of Neo-Neon Holdings Limited (the "Company") and the management, I am pleased to present the report on the development status and operating results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

In 2018, the economic development was relatively arduous. Affected by the slowdown of Chinese economic growth, the tightening of monetary policy by the Federal Reserve and the intensifying Sino-US trade frictions, there were great uncertainties in existence in various economic fields. Facing the complex condition, the Group adopted the dumbbell strategies of "focusing on research and development and channels and light asset (重研發、重渠道、輕資產)", further expanded the sales channels, spared no effort to promote the supply side reform, continuously improved the core competitiveness and management level of the Company and gained remarkable progress.

EXPANSION OF SALES CHANNELS

The Group has been strengthening its efforts in product innovation and enhancing customer experience for the LED lightning segment, the core business of the Group, for the purpose of providing its customers with safe, comfortable and energy-saving light environments. We boast the most comprehensive decorative lighting supply chain. We obtained over 1,000 domestic and international patents, and have been ranked among the Top 100 Guangdong Innovative Patent Enterprises. In 2018, the Group seized the opportunity, planed and conducted the acquisition of Novelty Lights, LLC ("Novelty Lights") in North America, an E-commercial business platform company mainly engaged in outdoor decorating light products, which will form a new layout of online and offline complementary and synergies with the traditional physical channels of the Group.

SUPPLY-SIDE REFORM

Advancing the supply-side structural reform is one of the main tasks of the Chinese economic work. In response to the trend and based on the needs of self-development, the Group actively implemented the measures of "keeping the cage, but changing the bird", to revitalise the idle assets. In 2018, the construction and development of Tongfang Science and Technology City* (同方科技城) obtained the approval of the Heshan Municipal People's Government* (鶴山市人民政府) ("Heshan Government"). The nature of the land required by the plan was changed from industrial use to commercial and residential use, which laid a foundation for continuously expanding its existing LED business.

Tongfang Securities Limited ("Tongfang Securities"), a wholly-owned subsidiary of the Group sought for global financial and technology opportunities in Hong Kong. In 2018, Tongfang Securities formed a research team centering on health segment, TMT segment and consumption, proactively prepared the private equity business platform in China and expanded international merger and acquisition projects. Affected by the global financial market condition, the market value of the equity investments portfolio of Tongfang Securities experienced adverse fluctuation. In 2019, Tongfang Securities will persistently strengthen the strategic position of "Technological Investment Bank", and commit to serve the investment and financing demands in the scientific and technological ecosystem.

ACKNOWLEDGEMENT

I would like to take this opportunity to acknowledge the continuous support from all of 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 to the Group.

Huang Yu
Chairman
20 March 2019

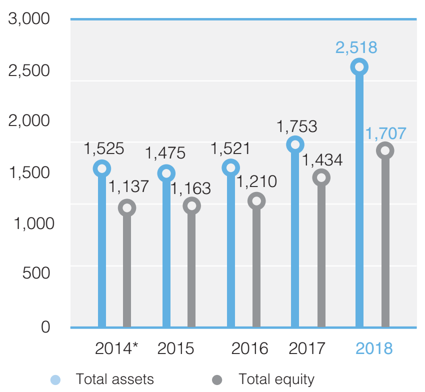
* *For identification purposes only*

FINANCIAL HIGHLIGHTS

Expressed in RMB million	Year ended 31 December 2014*	2015	2016	2017	2018
Turnover	558	602	611	666	**694**
Gross profit	48	167	189	208	**204**
(Loss) profit attributable to owners of the Company	(196)	6	12	120	**146**
EBITA	(162)	46	58	156	**189**
Total assets	1,525	1,475	1,521	1,753	**2,518**
Total liabilities	388	312	311	319	**811**
Total equity	1,137	1,163	1,210	1,434	**1,707**
Gross profit margin	8.7%	27.8%	30.8%	31.3%	**29.4%**
Net (loss) profit margin	(35.1%)	1.0%	1.9%	18.1%	**21.0%**
EPS (Loss)-basic (RMB cents)	(13.1)	0.3	0.6	5.7	**7.0**

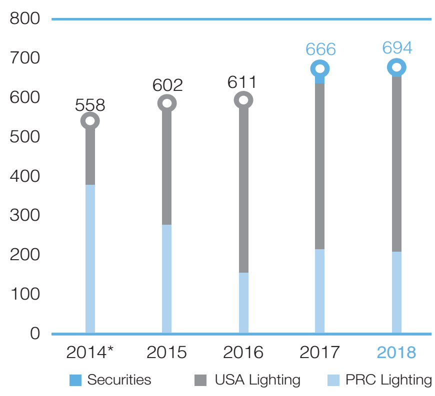
Total assets/Total equity

RMB M



Turnover

RMB M

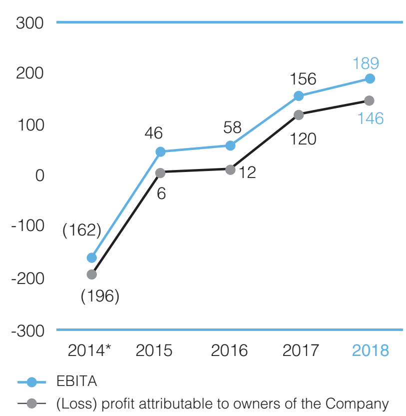


Gross and net profit (loss) margin

%

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

RMB M



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

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Mr. Seah Han Leong (謝漢良)

Mr. Seah Han Leong (謝漢良), aged 55, 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 all the business segments of the Group (other than the financial business). He is also a founder, an executive director and chief operation officer of Technovator International Limited ("Technovator"), 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 of Hong Kong Limited (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 recognised 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.

Dr. Li, P. W. Daniel

Mr. Daniel P. W. Li, aged 47, was appointed as an executive Director and regulatory compliance committee of the Company on 16 May 2018, and he is responsible for the financial business of the Group. Dr. Li is a Ph.D in Management, has extensive experience in financial institution management and has worked as the management in various financial institutions before. He acts as chairman of Tongfang Securities and Tongfang Finance Limited and a director of Tongfang Capital Limited and Tongfang Development Limited, all of which are subsidiaries of the Group. Mr. Li is a licensed responsible officer under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") for dealing of securities, advising on securities and asset management.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

NON-EXECUTIVE DIRECTORS

Mr. Huang Yu (黃俞)

Mr. Huang Yu (黃俞), aged 50, 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 Tsinghua Tongfang Co., Ltd.* (同方股份有限公司) ("Tsinghua Tongfang"), 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 of Technovator.

Mr. Wang Liang Hai (王良海)

Mr. Wang Liang Hai (王良海), aged 54, 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 56, 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, and 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fan, Ren Da Anthony (范仁達)

Mr. Fan, Ren Da Anthony (范仁達), aged 58, 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, 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) and Raymond Industrial Limited (stock code: 229), all of which are listed on the Main Board of the 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 57, 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. Mr. Liu served as vice president of Tsinghua Tongfang and the general manager of digital TV system group of Tsinghua Tongfang from 2003 to 2009.

Ms. Li Ming Qi (李明綺)

Ms. Li Ming Qi (李明綺), aged 51, 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 United States of America ("USA") (stock code: SGAS). After graduation, Ms. Li served as a senior associate of PricewaterhouseCoopers and JP Morgan Chase, and 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

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.

Dr. Li P. W. Daniel. 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 44, 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 65, 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 USA. He is also currently the chief executive officer (CEO) and the acting CEO of American Lighting, Inc. ("American Lighting") and Tivoli, LLC ("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 USA. 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 47, 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.

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 43, 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. 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Cheng Chien Wen (鄭建文)

Mr. Cheng Chien Wen (鄭建文), aged 51, 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 52, is a construction engineer, and he graduated from Heilongjiang Province Construction Workers' University in July 1990. He is the assistant president of the Company and the general manager of Guangdong Tongfang Science Park Company Limited* (廣東同方科技園有限公司), 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.

Mr. Mak Chak Hung (麥澤鴻)

Mr. Mak Chak Hung (麥澤鴻), aged 57, 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 Securities and Futures Commission 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, he was the head of Fund Management at Guosen Securities (Hong Kong) Asset Management Ltd, the managing director at ABC International Asset Management Ltd, the 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 2018 was approximately RMB693.7 million, representing an increase of approximately 4.2% as compared to approximately RMB665.7 million for the year ended 31 December 2017. For further details, please refer to the below.

Lighting Segment

The revenue of attributable to the lighting segment (research and development, manufacturing, distribution and providing solutions of lighting products) for the year ended 31 December 2018 was approximately RMB659.0 million, which represents an increase of approximately RMB29.7 million as compared to approximately RMB629.3 million for the year ended 31 December 2017, due to the increased revenue of approximately RMB37.0 million from the USA lighting segment.

Securities Segment

During the year ended 31 December 2018, the revenue attributable to the securities segment was approximately RMB34.7 million, representing a decrease of approximately RMB1.7 million over approximately RMB36.4 million for the year ended 31 December 2017.

Cost of goods sold

For the year ended 31 December 2018, the cost of goods sold was approximately RMB489.6 million, representing an increase of approximately RMB32.0 million over approximately RMB457.6 million for the year ended 31 December 2017 primarily due to the increase of material costs.

Gross profit and gross profit margin

For the year ended 31 December 2018, the Group recorded a gross profit of approximately RMB204.1 million, representing a decrease of approximately RMB4.0 million over the gross profit of approximately RMB208.1 million for the year ended 31 December 2017.

Lighting Segment

For the year ended 31 December 2018, the Group recorded a gross profit of approximately RMB169.4 million for the lighting segment, representing a decrease of approximately RMB2.3 million or 1.3% over approximately RMB171.7 million for the year ended 31 December 2017 primarily due to the increase of the cost of goods sold.

Securities Segment

For the year ended 31 December 2018, the Group recorded a gross profit of approximately RMB34.7 million for the securities segment, representing a decrease of approximately RMB1.7 million over approximately RMB36.4 million for the year ended 31 December 2017, mainly attributable to the investment failure.

MANAGEMENT DISCUSSION AND ANALYSIS

Other gains and losses, net

For the year ended 31 December 2018, the Group recorded other losses of approximately RMB22.5 million, representing a decrease of approximately RMB129.2 million over the other gains of approximately RMB106.7 million for the year ended 31 December 2017, due to the net loss of approximately RMB43.1 million resulting from the disposal of items of property, plant and equipment.

Impairment loss of property, plant and equipment

For the year ended 31 December 2018, the amount of impairment loss recognised in respect of property, plant and equipment was nil (2017: nil).

Operating expenses

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

For the year ended 31 December 2018, the distribution and selling expenses of the Group were approximately RMB111.9 million, representing an increase of approximately RMB21.8 million over approximately RMB90.1 million for the year ended 31 December 2017, mainly attributable to the increase in staff costs of approximately RMB5.0 million and other selling expenses of approximately RMB14.8 million for expanding the sales channels of the USA lighting segment.

The administrative expenses mainly comprised of staff costs for the securities segment, directors remuneration, depreciation charge and professional and legal fees. The administrative expenses for the year ended 31 December 2018 were approximately RMB154.3 million, representing an increase of approximately RMB26.1 million over approximately RMB128.2 million for the year ended 31 December 2017, mainly due to the increase in staff costs due to the business expansion of Tongfang Securities and cost due to information system transformation of the USA lighting segment.

Finance costs

The finance costs for the year ended 31 December 2018 was approximately RMB14.9 million, representing an increase of approximately RMB10.2 million over approximately RMB4.7 million for the year ended 31 December 2017, mainly due to the increase in new bank loans of approximately RMB222.4 million and the increase of new loans from the ultimate holding company of approximately RMB350.0 million for the year under review.

Taxation

For the year ended 31 December 2018, the Group's tax credit of approximately RMB0.6 million (2017: tax charge of approximately RMB5.8 million) mainly included tax provision of approximately RMB3.9 million, deferred tax credited of approximately RMB4.8 million and underprovision in prior years of approximately RMB0.3 million.

Profit attributable to owners of the parent

For year ended 31 December 2018, the Group recorded a profit attributable to owners of the Company of approximately RMB145.8 million, representing an increase of approximately RMB25.4 million over approximately RMB120.4 million for the year ended 31 December 2017, Such profit was mainly derived from, among others, the lighting segment profit from the People's Republic of China (the "PRC") and the USA.

MANAGEMENT DISCUSSION AND ANALYSIS

Net profit

For year ended 31 December 2018, the Group recorded a net profit of approximately RMB145.9 million, as compared to approximately RMB120.5 million for the year ended 31 December 2017. Such profit was mainly derived from, among others, the PRC lighting segment profit and the USA lighting segment profit.

Financial Resources and Liquidity and Gearing Ratio

The Group maintained a stable financial position. As at 31 December 2018, the Group had bank balances of approximately RMB229.8 million and short-term bank loans of approximately RMB227.3 million. The gearing ratio representing the ratio of total debt to total equity of the Group was 33.8% as at 31 December 2018 (31 December 2017: 4.9%). Such increase was mainly caused by the new bank loans of approximately RMB222.4 and the new loans from the ultimate holding company of approximately RMB350.0 million incurred in 2018, which were used for investment properties and financial service business.

Cash flows

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

The Group recorded (i) cash outflow from operating activities of approximately RMB173.1 million for the year ended 31 December 2018 (2017: approximately RMB79.6 million); (ii) cash outflow from investing activities of approximately RMB534.8 million for the year ended 31 December 2018 (2017: approximately RMB40.5 million); and (iii) cash inflow from financing activities of approximately RMB483.6 million for year ended 31 December 2018 (2017: cash outflow of approximately RMB51.6 million).

The above increase in cash outflow from operating activities was mainly attributable to the increase in loan receivables of approximately RMB292.4 million.

The above increase in cash outflow from investing activities was mainly attributable to the increase in the cash outflow of addition to an investment property of approximately RMB592.2 million, cash outflow of purchase of financial assets at fair value through profit or loss of approximately RMB633.0 million, and cash inflow of proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB763.7 million.

The above increase in cash inflow from financing activities was mainly attributable to new bank loans of approximately RMB222.4 million, a new loan from the ultimate holding company of approximately RMB350.0 million and repayment of bank loans of approximately RMB70.2 million in the year of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Assets and liabilities

As at 31 December 2018, the Group recorded the total assets of approximately RMB2,517.9 million (31 December 2017: approximately RMB1,752.8 million) and total liabilities of approximately RMB811.1 million (31 December 2017: approximately RMB319.0 million).

As at 31 December 2018, the Group's current assets and non-current assets were approximately RMB1,217.0 million (31 December 2017: approximately RMB1,298.3 million) and approximately RMB1,300.9 million (31 December 2017: approximately RMB454.6 million), respectively. The increase in non-current assets was mainly attributable to the increase in investment properties of approximately RMB758.8 million.

As at 31 December 2018, the Group's current liabilities and long-term liabilities were approximately RMB402.9 million (31 December 2017: RMB305.1 million) and approximately RMB408.2 million (31 December 2017: RMB13.9 million), respectively. The increase in current liabilities was mainly attributable to the increase in interest-bearing bank borrowings and the increase in long-term liabilities was mainly attributable to the increase in a loan from the ultimate holding company.

Foreign Currency Risk

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the functional currency of the respective entity, which exposes 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 2018, the Group did not pledge any of its land or buildings (31 December 2017: nil). The Group pledged certain of its trade receivables and inventories with an aggregate carrying value of approximately RMB135.4 million (31 December 2017: approximately RMB53.4 million), and also a bank deposit of aggregate carrying value of approximately RMB34.3 million (31 December 2017: approximately RMB13.3 million) to secure bank credit facilities granted to the Group.

Capital Commitments

As at 31 December 2018, 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 approximately RMB4.4 million (31 December 2017: approximately RMB4.6 million).

Contingent Liabilities

During the year ended 31 December 2018, a subsidiary is parties to various legal claims in its 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

As at 31 December 2018, the issued share capital of the Company was approximately RMB185,675,667 (equivalent to approximately HK$209,450,542) (31 December 2017: approximately RMB186,911,931 (equivalent to approximately HK$210,916,342), divided into 2,094,505,417 ordinary shares of HK$0.10 each. Such change was primarily due to the cancellation of 14,658,000 shares for a total consideration of approximately RMB1,236,000.

Advance to an Entity

On 6 April 2018, Tongfang Finance Limited, a wholly-owned subsidiary of the Company, had agreed to advance an aggregate of secured loans of HK$269,102,000 to Mr. Wang Li Feng as the borrower (the "Borrower") by way of (i) acquisition of bonds (the "Bonds") issued by the Borrower at a consideration of HK$185,450,000; and (ii) a provision of a secured loan in cash of HK$83,652,000 at an interest rate of 8% per annum under a loan agreement (the "Loan Agreement") dated 6 April 2018 and entered into between Tongfang Finance Limited and the Borrower. On 6 April 2018, Tongfang Finance Limited had also entered into a supplemental agreement (the "Supplemental Agreement") with the Borrower to amend certain terms of the Bonds. The transactions contemplated under the Bonds as amended by the Supplemental Agreement and the Loan Agreement constitute an advance to an entity by the Company under Rule 13.13 of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (the "Listing Rules") and details of the relevant interest rates, repayment terms and collaterals are disclosed in the announcement of the Company dated 6 April 2018.

As at 31 December 2018, the circumstances giving rise to the disclosure under Rule 13.13 of the Listing Rules continued to exist and the advance to the Borrower by the Group as at 31 December 2018 amounted to HK$269,102,000.

Material Acquisition, Disposal and Significant Investment

On 6 December 2018, Jiangmen Tonghe Guangyuan Technology Limited* (江門市同鶴光源科技有限公司) ("Jiangmen Tonghe") and Jiangmen Tongxin Guangyuan Technology Limited* (江門市同欣光源科技有限公司) ("Jiangmen Tongxin"), both indirect wholly-owned subsidiaries of the Company, entered into various land use rights grant contracts ("Land Use Rights Grant Contracts") with Heshan Municipal Land Bureau* (鶴山市國土資源局) ("Heshan Municipal Land Bureau") in respect of the grant of the relevant lands for urban residential usage and commercial service usage to Jiangmen Tonghe and Jiangmen Tongxin by Heshan Municipal Land Bureau at the aggregated consideration of RMB487,805,154.67 and RMB87,104,107.67, respectively. As the date of this report, the consideration has been fully paid by the Jiangmen Tonghe and Jiangmen Tongxin. In addition, Jiangmen Tonghe and Jiangmen Tongxin also have received from the Heshan Government the compensation for landed buildings in the amount of approximately RMB230 million as the compensation for the demolition of landed buildings. For details, please refer to the Company's announcements dated 6 December 2018, 28 December 2018, 9 January 2019 and the shareholders' circular dated 25 February 2019.

Save for those disclosed in this report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

On 1 January 2019 (MST), American Lighting, an indirect wholly-owned subsidiary of the Company, entered into a membership interest purchase agreement with Lighten Up Holdings, Inc. ("Lighten Up"), pursuant to which American Lighting has agreed to purchase 100% membership interest of Novelty Lights from Lighten Up for an aggregate consideration of approximately US$12,000,000, subject to adjustment under the said purchase agreement. After the initial closing on 1 January 2019 (MST), the Company indirectly holds 80% of the membership interests in Novelty Lights and Novelty Lights became an indirectly non-wholly-owned subsidiary of the Company. Upon completion of the second closing, Novelty Lights will become an indirectly wholly-owned subsidiary of the Company. For details, please refer to the Company's announcement dated 1 January 2019.

FINAL DIVIDEND

The Board resolved not to declare any dividend for the year ended 31 December 2018 (2017: nil).

BUSINESS REVIEW

Overview

During the year under review, the lighting segment, which was the pillar segment of the Group, seized the opportunity to explore the overseas market diligently, increased the gross profit margins, improved the management level, and revitalised idle assets, which led to the improvement in the overall operating performance.

On 1 March 2018, the Company received an approval letter from 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 Guangdong Tongfang Science Park Company Limited* (formerly known as Heshan Tongfang Lighting Technology Limited), in Heshan Industry City* (鶴山市工業城) as contemplated under the Investment Framework Agreement. On 7 August 2018, Heshan Municipal Land Bureau determined the site map of each planned plot. As disclosed above, the Group has obtained the land use rights of the planned plots pursuant to the Land Use Rights Grant Contracts.

On the other hand, the Company continued to cultivate the following new businesses: fund management, investment banking, financial management and technology-based financial business investments in emerging industries. Tongfang Securities is licensed to carry out Type 1(dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. Tongfang Securities 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 of such national strategic emerging industries would facilitate the Group to continue to innovate and develop.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales and Distribution

Lighting Segment

During the year under review, 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, a direct wholly-owned subsidiary of the Company, 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

As at 31 December 2018, the Group's total number of employees was approximately 1,100 (31 December 2017: 1,200). 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.

* *For identification purposes only*

DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2018 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 2018 are set out in note 1 to the consolidated financial statements.

DIVIDEND POLICY

The declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the articles of association of the Company (the "Articles of Association"). Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the amount of distributable profits, the liquidity and capital requirements, the cash flow, taxation, and the future business plans of the Company.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the "Consolidated Statement of Comprehensive Income" on page 85 of this annual report. The Board resolved not to declare any dividend for the year ended 31 December 2018 (2017: nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 5 of this annual report. Such summary does not form part of the audited financial statements.

DIRECTORS' REPORT

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held in Hong Kong on 18 June 2019. 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, 18 June 2019, the register of members of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019, 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 Wednesday, 12 June 2019. The record date for the entitlement to attend the AGM will be on Tuesday, 18 June 2019.

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the Group's property, plant and equipment are set out in note 13 to the consolidated financial statements. Movements during the year in the Group's investment properties are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 30 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. As at 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company represented the share premium of RMB2,415,147,000, net of realised accumulated loss of RMB853,405,000.

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 of the Company.

DIRECTORS' REPORT

DIRECTORS

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

Executive Director

Mr. Seah Han Leong
Mr. Daniel P.W. Li (appointed on 16 May 2018)

Non-executive Directors

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

Independent Non-executive Directors

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

The updated information of the Director and senior management is set out on page 6 to page 10 of this report.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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 under review.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 following schemes:

(a) the share option scheme of the Company adopted by resolutions of the shareholders on 20 November 2006 (the "2006 Share Option Scheme");

(b) the share option scheme adopted by the Company at the annual general meeting on 13 May 2016 (the "2016 Share Option Scheme");

(c) American Lighting's share incentive plan adopted by the shareholders on 2 April 2015 (the "Subsidiary Share Incentive Plan"); and

(d) the share award scheme of the Company adopted by the Board on 13 April 2018 (the "Share Award Scheme").

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 2018 and up to the date hereof.

DIRECTORS' REPORT

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

As at 31 December 2018, 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 (the "Model Code"), 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 2018	Percentage of total issued share capital as at 31 December 2018
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%
Mr. Daniel P.W. Li (7)	Interest of controlled corporation	177,227,723	8.5%

Notes:

(1) Mr. Seah Han Leong is deemed to be interested in 1,500,000 shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015 under the 2006 Share Option Scheme.

(2) Mr. Wang Liang Hai is deemed to be interested in 1,500,000 shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015 under the 2006 Share Option Scheme.

(3) Mr. Liu Wei Dong is deemed to be interested in 1,000,000 shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015 under the 2006 Share Option Scheme.

(4) Mr. Fan, Ren Da Anthony is deemed to be interested in 600,000 shares which may be issued to him upon the exercise of the share options granted to him on 15 May 2015 under the 2006 Share Option Scheme.

(5) Mr. Liu Tian Min is deemed to be interested in 600,000 shares which may be issued to her upon the exercise of the share options granted to him on 15 May 2015 under the 2006 Share Option Scheme.

(6) Ms. Li Ming Qi is deemed to be interested in 600,000 shares which may be issued to her upon the exercise of the share options granted to her on 15 May 2015 under the 2006 Share Option Scheme.

(7) Mr. Daniel P.W. Li holds the entire issued share capital of Vast Stone Limited and is therefore deemed to be interested in all 177,227,723 shares held by Vast Stone Limited.

DIRECTORS' REPORT

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

American Lighting

Name	Capacity	Number of ordinary shares as at 31 December 2018	Percentage of total issued share capital as at 31 December 2018
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 2018, 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).

DIRECTORS' REPORT

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

As at 31 December 2018, 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 of the Company 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 2018	Percentage of total issued share capital as at 31 December 2018
THTF ES[(1)]	Beneficial owner	1,348,360,690	64.3%
Resuccess[(1)(2)]	Interest of controlled corporation, beneficial owner	1,357,442,690	64.8%
Tsinghua Tongfang[(1)(2)]	Interest of controlled corporation	1,357,442,690	64.8%
Vast Stone Limited[(3)]	Beneficial owner	177,227,723	8.5%
Daniel P.W. Li[(3)]	Interest of controlled corporation	177,227,723	8.5%

Notes:

(1) Resuccess Investments Limited ("Resuccess") holds the entire issued share capital of THTF Energy Saving Holdings Limited ("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.

(3) Daniel P.W. Li holds the entire issued share capital of Vast Stone Limited and is therefore deemed to be interested in all 177,227,723 shares held by Vast Stone Limited.

Save as mentioned above, as at 31 December 2018, 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.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

There were no non-exempt connected transactions or continuing connected transactions subsisted or have been entered into by the Group for the year ended 31 December 2018.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group for the year ended 31 December 2018 are set out in note 39 to the financial statements. None of these related party transactions constitutes a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and the continuing connected transactions entered into by the Group during the year under review.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Share Option Scheme", as at the end of and during the year ended 31 December 2018, 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).

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.

Upon the adoption of the 2016 Share Option Scheme on 13 May 2016, the 2006 Share Option Scheme has been 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 21,200,000 shares (representing 1.01% 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.

DIRECTORS' REPORT

Details of the share options under the 2006 Share Option Scheme during the year ended 31 December 2018 are set forth as below.

Category of participants	Date of grant[1]	Exercise price per share (HK$)	Outstanding at 1 January 2018	Granted during the year	Exercise during the year	Forfeited/ Lapsed during the year	Outstanding at 31 December 2018
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	16,500,000	–	–	(1,100,000)	15,400,000
Total:	–	–	22,300,000	–	–	(1,100,000)	21,200,000

Notes:

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

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

Save as disclosed above, no share option was granted, exercised, lapsed, or cancelled during the year ended 31 December 2018.

DIRECTORS' REPORT

The 2016 Share Option Scheme

The Company has adopted the 2016 Share Option Scheme since on 13 May 2016 to optimise eligible persons' future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing 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 9.26% 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 9.26% 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.

DIRECTORS' REPORT

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 Period are set forth as below:

Category of participants	Date of grant[(1)]	Exercise price per share (US$)	Outstanding at 1 January 2018	Granted during the year	Exercise during the year	Forfeited/ Lapsed during the year	Outstanding at 31 December 2018
Directors							
Mr. Seah Han Leong	30 June 2015	330	363	–	–	–	363
Employees	30 June 2015	330	2,362	–	–	(290)	2,072

(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 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 31 to the financial statements.

DIRECTORS' REPORT

Share Award Scheme

On 13 April 2018, the Company approved the adoption of Share Award Scheme which is a long-term incentive plan of the Company to align the interests of selected participants directly to the shareholders through ownership of shares in the Company. (i) A director or a proposed director of any member of the Group or of a holding company or a subsidiary of the Company, or a subsidiary of the holding company of the Company (the "Eligible Entity"); (ii) a manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group; and (iii) 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 selected by the person authorised to administer the Scheme will be entitled to participate as a selected participant.

The Share Award Scheme shall terminate on the earlier of (i) upon expiry of the period of 10 years from the adoption date (i.e. 13 April 2018); (ii) on the date of any change in control of the Company; or (iii) on the date determined/resolved by the Board to terminate the Share Award Scheme pursuant to the scheme rules. Any termination if the Share Award Scheme shall not affect the subsisting rights of any selected participant. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules.

On 20 April 2018, the Company granted a sum equivalent to approximately HK$15,000,000 to the trustee of the trust set up for the purpose of the Share Award Scheme for purchase of shares (the "Restricted Shares") from the open market. Upon purchase of the Restricted Shares, the trustee will hold the Restricted Shares on trust for the Company and will vest the Restricted Shares to the selected participants in accordance with the person authorised to administer the Scheme and upon all vesting conditions specified having been satisfied. On 7 June 2018, the Company withdrew such sum equivalent to approximately HK$15,000,000 from the trustee because the Company had no plan to grant Restricted Shares and thus considered it not appropriate for the trustee to hold the fund from the cost perspective.

Details of the Share Award Scheme were set out in the announcement of the Company dated 13 April 2018. No share was granted under the Share Award Scheme during the year under review.

DIRECTORS' REPORT

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

During the year ended 31 December 2018, the Company repurchased its own shares on the Stock Exchange, details of which are as follows:

Repurchase Date	Number of shares repurchased	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate consideration paid (HK$)	Cancellation Date
2/1/2018	394,000	0.83	0.82	326,100	5/3/2018
8/1/2018	314,000	0.82	0.80	252,700	5/3/2018
9/1/2018	986,000	0.82	0.79	801,500	5/3/2018
19/1/2018	338,000	0.78	0.75	256,440	11/5/2018
2/2/2018	684,000	0.75	0.71	498,900	11/5/2018
6/2/2018	172,000	0.74	0.71	125,260	11/5/2018
7/2/2018	484,000	0.77	0.72	356,200	11/5/2018
9/2/2018	256,000	0.71	0.69	178,380	11/5/2018
13/2/2018	698,000	0.80	0.72	531,120	11/5/2018
20/6/2018	460,000	0.87	0.80	376,180	13/9/2018
22/6/2018	302,000	0.85	0.84	255,380	13/9/2018
25/6/2018	152,000	0.84	0.82	125,600	13/9/2018
3/7/2018	26,000	0.85	0.79	21,760	13/9/2018
4/7/2018	448,000	0.81	0.74	351,560	13/9/2018

During the year ended 31 December 2018, a total of 5,714,000 ordinary shares were repurchased by the Company on the Stock Exchange. All the repurchased shares were subsequently cancelled by the Company.

The purchase of the Company's shares during the year was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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 2018.

DIRECTORS' REPORT

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 ended 31 December 2018.

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 2018.

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 under review save as disclosed under the "Related Party Transactions" in note 39 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 2018, the largest supplier accounted for 20.6% of the Group's purchases and the five largest suppliers accounted for 44.5% of the Group's total purchases. The largest customer accounted for 14.4% of the Group's total revenue and the five largest customers accounted for 30.5% 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 35 to 48 of the annual report.

DIRECTORS' 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, the Subsidiary Share Incentive Plan and the Share Award Scheme on 13 May 2016, 2 April 2016 and 13 April 2018, respectively. For further details, please refer to the paragraphs headed "2016 Share Option Scheme", "Subsidiary Share Incentive Plan" and "Share Award Scheme" 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.

DIRECTORS' REPORT

AUDITORS

KPMG has resigned as the auditors of the Company with effect from 17 December 2018 and the Board has appointed Ernst & Young as auditors of the Company with effect from 17 December 2018 to fill the casual vacancy following the resignation of KPMG, and to hold office until the conclusion of the next annual general meeting of the Company. Ernst & Young shall retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Ernst & Young as auditors of the Company for the year ending 31 December 2019.

The financial statements of the Company for the year ended 31 December 2018 were audited by Ernst & Young.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the total issued capital of an issuer must be held by the public at any time. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this 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 2018 and the subsequent period ended the date of this report.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2018 are set out in note 27 to the consolidated 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 specialised 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 2018 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.

DIRECTORS' REPORT

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, standardisation 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 2018 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 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
20 March 2019

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 of the Company.

Throughout the year ended 31 December 2018, 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 ("Corporate Governance Code").

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;

– Authorising 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 the 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.

CORPORATE GOVERNANCE REPORT

Board Composition

The Board currently comprises eight Directors, consisting of two executive Directors, Mr. Seah Han Leong and Mr. Daniel P.W. Li, 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. Each of the executive Directors 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 is 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.

Chairman and Chief Executive Officer

For the year ended 31 December 2018, the Chairmen of the Board was Mr. Huang Yu. For the year ended 31 December 2018, the Chief Executive Officer of the Company was Mr. Seah Han Leong. The Company has complied with code provision A.2.1 of the Corporate Governance Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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 the 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.

CORPORATE GOVERNANCE REPORT

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.

Directors' Securities Transactions

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 2018.

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.

CORPORATE GOVERNANCE REPORT

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 2018:

Name of Director	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/Management or Other Professional Skills	
	Read materials	Attend Seminars/ Briefings	Read materials	Attend Seminars/ Briefings
Executive Directors				
Mr. Seah Han Leong	✓	✓	✓	✓
Mr. Daniel P.W. Li	✓	✓	✓	✓
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 furtherance of their duties.

CORPORATE GOVERNANCE REPORT

The Board meets regularly throughout the year ended 31 December 2018 to review the overall strategy and to monitor the operation as well as the financial performance of the Group. The Chairman focuses on the Group's 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 2018 is set out below:

Name of Director	Attendance/ Number of Board Meeting(s)	Attendance/ Number of General Meeting(s)
Executive Directors		
Mr. Seah Han Leong	5/5	1/1
Mr. Daniel P.W. Li	2/2	–
Non-executive Directors		
Mr. Huang Yu	4/5	0/1
Mr. Wang Liang Hai	5/5	0/1
Mr. Liu Wei Dong	4/5[1]	0/1
Independent non-executive Directors		
Mr. Fan Ren Da Anthony	5/5	1/1
Mr. Liu Tian Min	4/5	0/1
Ms. Li Ming Qi	5/5	1/1

(1) For the year ended 31 December 2018, Mr. Liu Wei Dong attended one meeting of the Board by proxy.

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. Daniel P.W. Li, 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 16 May 2018 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.

CORPORATE GOVERNANCE REPORT

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 2018, 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.

Article 86(3) of the Articles of Association provides 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.

Mr. Daniel P.W. Li was appointed by the Board as an executive Director on 16 May 2018. Pursuant to Article 86(3) of the Articles of Association, Mr. Li shall retire and be eligible for re-election at the forthcoming AGM. Mr. Li has offered himself for re-election at the forthcoming AGM.

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. Wang Liang Hai, Mr. Liu Wei Dong and Mr. Fan Ren Da Anthony shall retire by rotation at the AGM and, being eligible, will offer himself for re-election at the AGM.

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.

CORPORATE GOVERNANCE REPORT

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 2018 and the audited annual results for the year ended 31 December 2018, 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 2018.

During the year ended 31 December 2018, five 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	5/5
Mr. Fan Ren Da Anthony	5/5
Mr. Liu Tian Min	4/5

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. In addition, the remuneration committee is also responsible for determining, with delegated responsibility, the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments which include any compensation payable for loss or termination of their office or appointment. Their composition and written terms of reference are in line with the Corporate Governance Code.

During the year ended 31 December 2018, the remuneration committee mainly performed the following duties:

- recommended the remuneration of Mr. Daniel P.W. Li to the Board; and
- reviewed the Group's remuneration policy and the remuneration package of the Directors and senior management for the year of 2018.

During the year ended 31 December 2018, 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, 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. 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.

During the year ended 31 December 2018, the nomination committee mainly performed the following duties:

- reviewed the qualifications of Mr. Daniel P.W. Li and recommended his appointment to the Board;
- reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and
- reviewed the structure, size and composition of the Board, during the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, 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 regulatory compliance committee currently comprises of eight members, being all Directors of the Company with Mr. Fan Ren Da Anthony acting as the chairman of the risk management and regulatory compliance committee. The primary duties of the risk management and regulatory compliance committee are to monitor the risk management system of the Company and compliance of the Company's existing or future business, and review and make recommendations on the compliance of applicable laws and regulations, including matters relating to the Listing Rules.

During the year ended 31 December 2018, 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 2018, three meetings were held by the risk management and regulatory compliance committee.

Name of Director	Attendance/Number of Committee Meeting(s)
Mr. Fan Ren Da Anthony	3/3
Mr. Seah Han Leong	3/3
Mr. Huang Yu	2/3
Mr. Daniel P.W. Li	2/2
Mr. Wang Liang Hai	3/3
Mr. Liu Wei Dong	2/3[1]
Mr. Liu Tian Min	3/3
Ms. Li Ming Qi	3/3

(1) For the year ended 31 December 2018, Mr. Liu Wei Dong attended one meeting of the risk management and regulatory compliance committee by proxy.

CORPORATE GOVERNANCE REPORT

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 2018, 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 Ernst & Young, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditor's 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 Ernst & Young as its external auditors. Details of the fees paid/payable to Ernst & Young for the year ended 31 December 2018 are as follows.

	RMB'000
Audit services	2,450
Non-audit services *(note)*	435
Total	2,885

Note: The non-audit services cover audit fee in Taiwan, environment, social and governance report fee and result announcement 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 the 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 2018, 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 2018, 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.

CORPORATE GOVERNANCE REPORT

Meanwhile, with the assistance of the professional auditors, 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 2018 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's 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 2018, 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.

CORPORATE GOVERNANCE REPORT

Meanwhile, the Company has updated the terms of reference and procedures of the audit committee and nomination committee accordingly in March 2019 to conform the new requirements of the Corporate Governance Code on different aspects, including the rules relating to the independence of independent non-executive Directors, the Board diversity and transparency of dividend policy.

INVESTOR AND SHAREHOLDER RELATIONS

The Company endeavors to continue maintaining a high level of transparency in communicating with the 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's 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.

CORPORATE GOVERNANCE REPORT

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 change in the Company's constitutional documents during the year ended 31 December 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Neo-Neon Holdings Limited (hereinafter referred to as "Neo-Neon", the "Company", "We", "Us" or "Our") attaches great importance to corporate social responsibility, continuously enhances environmental, social and governance performance, maintains good communication with all stakeholders and timely discloses environmental, social and governance information.

The Company has prepared its "Environmental, Social and Governance Report" (the "ESG Report") for the financial year ended 31 December 2018, which is the third ESG Report of the Company, in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong, summarising the management system, implementation and key performance of the Company in environmental, social and corporate governance.

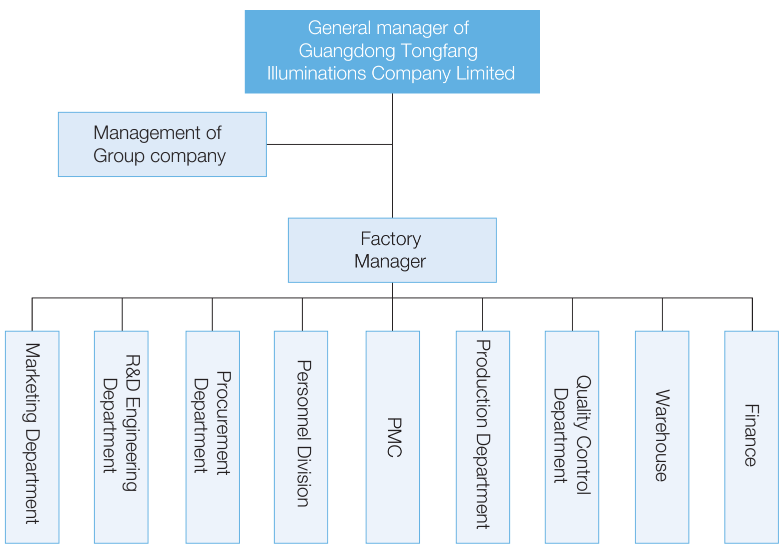
1 RESPONSIBILITY GOVERNANCE

1.1 Governance Structure

Neo-Neon establishes, implements and maintains the social responsibility management system and continuously improves our social responsibility performance in accordance with Labor Regulations of China and SA8000 International Standards.

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. In 2018, we updated the SA8000 Social Responsibility Management Manual **("Management Manual")** based on the development trend and strategic characteristics of the Company, further clarified the organisational structure of our social responsibility management system, and stipulated the policies, principles, objectives, procedures and practices in social responsibility of our Company. The senior management of the Company was appointed as the representative of the social responsibility management, and cooperated with various functional departments to actively guide the Company to fulfill its social responsibilities.

Diagram 1-1 Social Responsibility Management System Framework



1.2 Responsibility Communication

Neo-Neon continues to practice the concept of sustainable development, maintains good communication with all stakeholders, and keeps abreast of their expectations regarding environmental, social and corporate governance through multiple channels. Our main stakeholders include governments, shareholders and investors, customers, employees, partners and communities. We have established an effective communication platform for them to get timely access to our social responsibility work and give feedback.

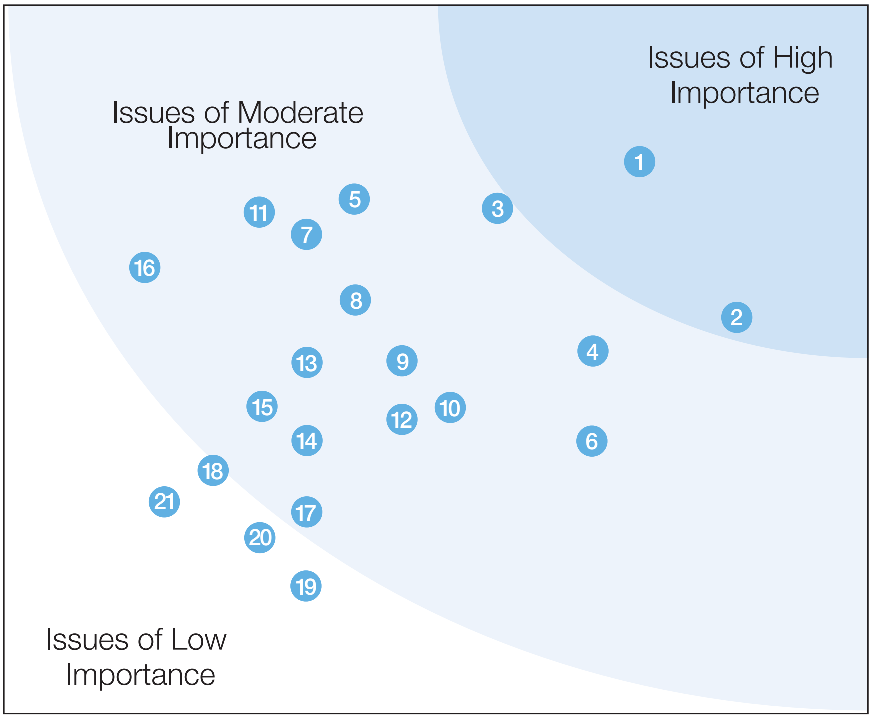
Table 1-1 Communication methods of Neo-Neon's stakeholders

Stakeholders	Communication Appeal	Communication Method
The Government	Compliance Pay Taxes According to Law Job Creation	Political and Business Forum Work Report and Research
Shareholders and Investors	Steady Operation Open and Transparent Strict Risk Control	Shareholders General Meeting Company Announcement Investor Research Company Official Website
Supplier/Subcontractor	Fair Purchase Win-Win Cooperation	Working Meeting Open Tender Industry Discussion
Customers	Product Quality Privacy Protection	Service Hotline Company Official Website
Employees	Rights Protection Training Development Health and Safety	E-Mail Survey Performance Evaluation
Communities	Community Development Charity	Community Activity Information Disclosure

In 2018, the Company adjusted its business model and operation strategy. In this regard, we reassessed its environmental, social and governance-related issues, fully considered the industry characteristics and enterprise development, and was fully aware of the expectations of stakeholders in the Company's social responsibility work. We conducted various forms of research, including questionnaires, field visits, telephone interviews, etc., to communicate with major stakeholders to understand their concerns about the Company's environmental, social and governance information, selected and ranked 21 major issues according to the importance raised by stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality Analysis of ESG Issues for
Neo-Neon Holdings Limited



Material ESG Issues of Neo-Neon in 2018

	Number	Content
Issues of High Importance	1	Compliance
	2	Anti-Corruption
Issues of Moderate Importance	3	Waste Discharge Management
	4	Protecting Customer Rights
	5	Occupational Health and Safety
	6	Intellectual Property
	7	Avoidance of Child and Forced Labour
	8	Participate in Social Welfare
	9	Product Quality and Safety
	10	Protect Consumer Privacy

	Number	Content
	11	Water Use Management
	12	Improve Energy Efficiency
	13	Product Recall
	14	Compliance Employment
	15	Protection of the Environment and Natural Resources
	16	Reduce Greenhouse Gas Emissions
	17	Staff Training and Promotion
Issues of Low Importance	18	Employee Care and Development
	19	Normalise Supply Chain Management
	20	Green Product
	21	Employees Remuneration and Welfare Package

2 ENVIRONMENTAL PROTECTION

2.1 Emission Management

Neo-Neon attaches great importance to environmental protection, and strives to realise the transformation from labor-intensive and high-energy-consuming production enterprises to enterprises with light assets and less emissions and focuses on sales and research and development (“**R&D”**). The Company actively explores the green production mode of energy conservation and emission reduction, strictly manages pollutant emissions, and continuously reduces the impact on the environment.

The Company strictly abides by the Environmental Protection Law of the People’s Republic of China, Water Pollution Prevention and Control Law of the People’s Republic of China, Air Pollution Control Law of the People’s Republic of China and other relevant regulations, and formulated the Environmental and Occupational Health and Safety Policy in the Company’s Management Manual in accordance with the requirements of the ISO14001 Environmental Management System, clearly stating that “protecting the environment, saving energy resources and preventing pollution”, and requiring that the Company must “regulate and measure implementation regularly and comply with local laws and regulations and other requirements” during its operations.

Based on this policy, the Company has established corresponding management systems for all aspects of environmental management, including the Regulations on Wastewater Emissions and Noise Management, Water Pollution Control Procedures, Soil Pollution Prevention Procedures and Hazardous Waste Management Regulations to comprehensively regulate waste discharge management and ensure the compliance management of waste gas, waste water and solid waste. The Waste Water and Waste Gas Emission and Noise Control Management Procedures are formulated based on the national Integrated Wastewater Discharge Standard (GB8978-1996) and local regulations, to ensure that emissions meet the corresponding standards. It also makes provisions for the emission standards of atmospheric pollutants with reference to the Integrated Emission Standard of Air Pollutants (GB16297-1996). In addition, according to the Hazardous Waste Management Regulations, we properly store hazardous wastes in strict compliance with the Hazardous Waste Transfer Five-Link System and hand over the generated hazardous wastes to qualified companies for disposal.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Besides, 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 entrusts units with relevant qualifications to carry out measurements and inspections according to actual conditions.

In 2018, there was no non-compliance case with relevant laws and regulations that have a significant impact on Neo-Neon relating to emissions.

Table 2-1. Emissions of Neo-Neon in 2018

Category	Total amount		Intensity	
	Unit	Amount	Unit	Amount
General emissions				
Discharge volume of wastewater in plant	ten thousand tonnes	15.90	ten thousand tonnes/billion output value	22.92
Greenhouse gas				
Scope 1 greenhouse gas	tCO2e	62.47	tonne/billion output value	90.06
Scope 2 greenhouse gas	tCO2e	3,396.93	tonne/billion output value	4,896.84
Hazardous waste				
Used oil/used oil rags	kilogram	50	kilogram/billion output value	72.08
Toner cartridges	box	8	box/billion output value	11.53
Non-hazardous waste				
Water pump motors	set	2	set/billion output value	2.88
Air compressors	set	3	set/billion output value	4.32

To implement the Company's transformation strategy of "light assets, less emissions, and heavy research and development", in 2018, the Company gradually shut down several large-volume emission workshops including painting workshops, and continuously optimised the assembly process to reduce pollution emission. Our investment in pollutant discharge management has achieved certain results. In 2018, the sewage discharge intensity per unit and greenhouse gas emissions intensity decreased significantly compared to that of 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

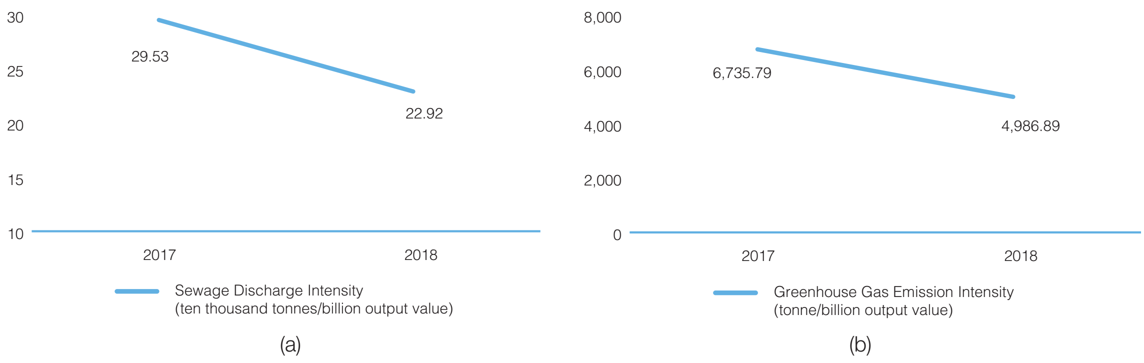


Table 2-1. Emissions of Neo-Neon 2017-2018
(a) Sewage Discharge Intensity(ten thousand tonnes/billion output value);
(b) Greenhouse Gas Emission Intensity (Scope 1 and Range 2) (tonne/billion output value)

2.2 Improvement of Resource Use Efficiency

Neo-Neon actively responded to the call of "constructing a resource-saving society" and continued to promote energy conservation and consumption reduction. The Company complies with the Energy Conservation Law of the People's Republic of China, and has formulated a resource conservation policy in the Management Manual. Besides, according to our Resources and Energy Conservation Control Procedures, we effectively control the use of water, electricity, paper, wood, raw materials and other resources and energy.

According to the Resources and Energy Conservation Control Procedures, through the cooperation of the R&D Department, the Equipment Department, the Purchasing Department and other departments, we reviewed the use of materials and energy in product development, quality control, warehousing management, production operations and material recovery, and developed corresponding savings plans to optimise the use of resources.

We also continued to improve the production process, replaced the original high-energy consumption equipment with energy-saving equipment, actively improved the mechanical structure of production equipment, and continuously improved the efficiency of resources and energy use. Besides, the Company set up an annual emission reduction goal, through the Water Consumption Record Form, Power Consumption Record Form and Oil (Petroleum, Diesel) Consumption Record Form, the Company quantifies the use of resources to achieve process supervision and ensure the achievement of objectives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Table 2-2. Energy and Resource Utilization of Neo-Neon in 2018

Category	Total amount			Intensity		
	Unit	2018	2017	Unit	2018	2017
Energy consumption						
Gasoline	litre	27,487.46	33,559.87	kiloliter/billion output value	39.62	50.56
Power consumption in office	kWh	652,315.00	767,924.00			
Power consumption in living space	kWh	1,351,126.00	1,860,645.00			
Power consumption in plant	kWh	4,262,232.00	4,343,673.00			
Total purchased power	kWh	6,265,673.00	6,972,242.00	MWh/billion output value	9,032.25	10,503.53
Water consumption						
Water consumption in office	tonne	22,613.00	31,815.00			
Water consumption in living space	tonne	129,016.00	143,155.00			
Water consumption in plant	tonne	173,425.00	180,323.00			
Total water consumption	tonne	490,499.47	355,293.00	tonne/billion output value	468,580.08	535,241.04
Packaging materials consumed for finished products						
Cardboard boxes	tonne	97.80	99.70			
Plastic bags	tonne	3.36	3.38			
EPE	tonne	0.35	0.37			
Total use of packaging materials	tonne	101.51	103.45	tonne/billion output value	146.33	155.85

With the efforts of all employees of the Company, in 2018, the use of purchased electricity, gasoline, and water resources has declined compared with previous years. We do not have any concerns in sourcing water that is fit for our purposes.

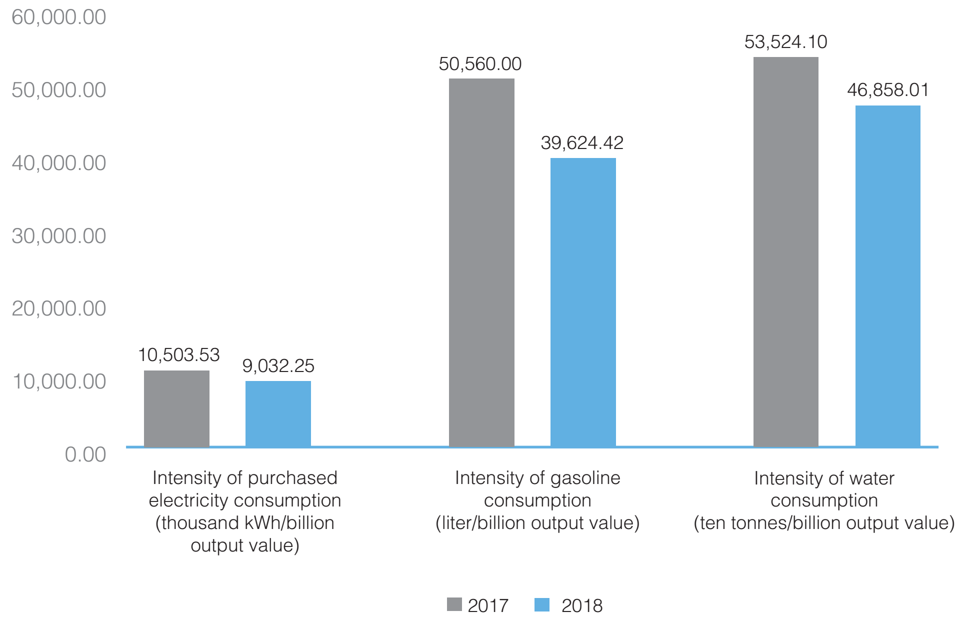


Figure 2-2. Intensity of electricity, gasoline and water consumption by Neo-Neon in 2017-2018

2.3 Protection of the Environment and Natural Resources

We actively participated in the construction of Guangdong-Hong Kong-Macao Greater Bay Area, responding to the call for Ecological Civilisation Construction by the local government and following the development direction of "transforming from labor-intensive, high-energy-consuming production enterprises to enterprises with light assets and heavy sales and R&D". Through business transformation, the negative impact on the environment and natural resources would be reduced, and the quality of the ecological environment would be improved.

The Company has achieved initial results in its transformation strategy. In 2018, we have closed a number of parts production workshops with high pollutants, and outsourced some high-energy assembly processes, continued to implement the concept of energy conservation and emission reduction, and proactively explored green low-carbon cycle development.

Besides, we strictly abide by the Environmental Protection Law of the People's Republic of China, Water and Soil Conservation Law of the People's Republic of China and other applicable laws and regulations, and clearly put forward the policy of "protecting the environment and preventing pollution" in the Environmental and Occupational Health and Safety Policy. In accordance with this, we formulated and implemented the Identification and Assessment of Environmental Factors Procedures, New Project Environment and OHS Impact Management Procedures, and Management Procedures Imposed on Impact of the Environmental and OHS Behaviors of Related Parties, to identify environmental factors in our activities, products and services and select significant environmental factors to ensure that they are under effectively control so as to minimise their negative impact on the environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

According to the Identification and Assessment of Environmental Factors Procedures, under the leadership of the Industrial Safety Committee and coordinated by the Department of Power Equipment, Production Center, Quality Engineering Department, the Company identifies and evaluates environmental factors that can be controlled and implemented, establishes control measures for all identified environmental factors, and supervises and inspects the implementation of environmental factors control. Moreover, we pre-evaluate the possible environmental impacts of new projects based on the New Project Environment and OHS Impact Management Procedures, and take corresponding measures to reduce their impact on the environment and OHS; we also impose environmental management requirements on all suppliers of the Company conducting related business in accordance with the Management Procedures Imposed on Impact of the Environmental and OHS Behaviors of Related Parties to reduce the negative impact on the environment.

3 EMPLOYMENT MANAGEMENT

3.1 Employment Compliance

With the development of economic globalisation, our global business partners are paying more attention to labor standards. We have been engaged in international trade for many years, attach great importance to employment compliance, and continue to comply with international labor standards and local labor regulations to maintain the Company's global competitiveness.

We strictly abide by the Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Social Security Law of the People's Republic of China and other applicable laws and regulations, and continue to improve the Employee Handbook under the guidance of the SA8000 Social Responsibility Management Standard System. We developed and implemented management systems such as Child Labor Rescue Procedures, Labor and Commercial Ethical Risk Assessment Procedures, and Non-obligatory Work Procedures, and continue to improve employment compliance management.

Management objectives of "Compliance Labor" in the Management Manual:

- Child labor rate: 0%;
- Salary is paid on time according to the Labor Law on a monthly basis: 100%;

In order to avoid the employment of child labor and other violations in the employment process, the Personnel Recruitment and Employment section of the Company's Employee Handbook clearly states: "A person under the age of 16 may not be recruited as our employee". Besides, according to the Human Resources Policy and Procedures, the Company requires job applicants to fill out the Employee Job Application Form and verifies their identity documents to confirm their age.

For any possible employment-related violation, we have established the Child Labour Rescue Procedures, which is managed by the Human Resources Department Staff Relations Group. If a child labor employee is identified, we would immediately terminate his or her job, settle the salary, and escort him or her back home. In addition, the Company will thoroughly investigate the reasons for illegal employment and prevent such incidents from recurrence.

In order to avoid the situation of forced labor and further reduce the risk of illegal employment, the Company has set up the Labour and Business Ethics Risk Management Procedures based on the guidelines of the SA8000 standards. The Industrial Safety Commission and the Human Resources Department are responsible for identifying the relevant laws and regulations. The Human Resources Department and the Production Department evaluate the risk of illegal child labor and forced labor, and ensure that forced labor is not involved in all employment links. Moreover, we have formulated and implemented the Non-Forced Labour Procedures, which "prohibits any form of forced labour, and guarantees personal freedom of our employees". In the event of a violation, the Company will immediately investigate the cause of the violation and compensate the relevant employee.

In 2018, we did not have illegal employment, and we have paid employees' salaries in full and on time in accordance with the applicable laws, and achieved annual management goals.

3.2 Equal and Diversified Employment

Neo-Neon advocates diversified background of staff and continuously enhances international competitiveness of the Company. In the Management Manual, Neo-Neon commits to "provide an equal and fair working environment and prohibits any forms of discrimination". We prohibit any forms of discrimination and have anti-discrimination policies including Procedures for Prevention of Discrimination and Harassment formulated by the human resources department in strict compliance with the Labour Law of the People's Republic of China and based on the requirements of SA8000 social responsibility management system standards, to ensure the equality in the employment process and the diversified background of staff.

The Company has adhered to the principle of fairness and equality. In the Procedures for Prevention of Discrimination and Harassment, it is clearly stated that "the employee will not be discriminated against or interfered with due to race, religion, color, nationality, gender, disability, union membership or political orientation in terms of recruitment, promotion, appointment, remuneration, dismissal, etc.". The Company has established a complaints and appeals mechanism for possible discriminations. The staff may lodge the complaint directly with workers' representatives, higher-level managers or the general manager. After receiving the complaint, the Company will assign personnel without conflict of interests to investigate the facts and take remedial actions.

Further, to enhance human resources management, Neo-Neon provides clear guidance for each employment stage such as recruitment and employment, code of conduct of employees, termination of labour contracts in the Staff Manual, continuously improves the human resources management system, creates favourable working conditions, and broadens platforms for the career development of employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Table 3-1. Employment of Neo-Neon in 2018

Category	Number of staff (person)	Percentage (%)
Total number of staff	1,100	100%
By gender		
Male staff	436	39.6%
Female staff	664	60.4%
By age group		
Under 30 years old	168	15.3%
30-50 years old	835	75.9%
50 years old or above	97	8.8%
By region		
South China	362	32.9%
East China	82	7.5%
North China	11	1.0%
Central China	267	24.3%
Overseas	378	34.4%

Table 3-2. Staff Turnover Rate of Neo-Neon in 2018

Category	Number of staff (person)	Turnover rate (%)
Total number of resigned staff	181	13.3%
By gender		
Male resigned staff	104	8.0%
Female resigned staff	77	6.1%
By age group		
Resigned staff aged under 30	49	4.0%
Resigned staff aged 30-50	117	8.8%
Resigned staff aged 50 or above	15	1.3%
By region		
Resigned staff in South China	83	6.6%
Resigned staff in East China	0	0.0%
Resigned staff in North China	12	1.0%
Resigned staff in Central China	76	6.3%
Overseas resigned staff	10	0.8%

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

Neo-Neon is willing to share development achievements of the Company with the staff and provides the staff with competitive salary package. The Company formulates salaries, remuneration and benefits polices in accordance with the Labour Law of the People's Republic of China and the Social Security Law of the People's Republic of China. In the Management Manual, it is proposed to "comply with the laws, distribute according to work, provide equal pay for equal work, gradually improve and provide social insurance according to the laws" as the principle of salary distribution. Also, in the Staff Manual, it is stipulated that the Company will adjust the salary every year based on staff performance to ensure that the Company's salary and benefits meet at least the requirements of local regulations and SA8000 standards. In addition, the Company has specially formulated the Salary Management System for employee compensation to ensure the legal compliance of the Company in all aspects of salary distribution and payment.

Neo-Neon has a comprehensive welfare system, providing employees with bonuses and allowances, and paying overtime pay in accordance with the Overtime Management Procedures. Moreover, we continuously improve the working environment of our employees, the conditions of dormitories and canteens, and rest and recreation facilities. We regularly organise employee cultural and sports activities to strengthen staff cohesion and sense of belonging.

In April 2018, the Company approved a long-term equity incentive plan to encourage shareholder employees to grow with the Company.

3.4 Safety and Health

Safe production is the basis of the Company's production and operation. Neo-Neon is committed to providing employees with a safe and healthy working environment. The Company has defined the management policy of "continuous improvement of health and safety performance" in the Management Manual in strict compliance with the Safety Production Law of the People's Republic of China, and has formulated safety and health policies and procedures with reference to OHSAS18001 and SA8000 standards to ensure safe production, including OHS Operation Control Procedures, OHS Performance Measurement and Monitoring Procedures, Procedures for Hazard Identification, Risk Evaluation and Risk Control Planning, Emergency Preparation and Response Procedures and etc..

"Safe production" management objectives in the Management Manual:

- Major industrial accidents of the year: 0;
- Rate of passing safety production training: 100%;

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With reference to the OHSAS18001 and SA8000 standards as well as the OHS Operation Control Procedures, the Industrial Committee collaborated with the Engineering Department, the Equipment Department, the Testing Center and other relevant departments to control the operation and activities related to occupational health and safety risk factors. At the same time, according to the Procedures for Hazard Identification, Risk Evaluation and Risk Control Planning, the Industrial Safety Commission and the Production Center and Quality Center are responsible for coordinating occupational hazards identification, risk assessment and risk control planning. 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.

Occupational safety training is crucial for occupational health. For special types of workers engaged in operations of boilers, pressure vessels, elevators, electric, lifting, welding, vehicle driving, flammables and explosives and other dangerous operations, the Company requires them to undertake professional safety technical training. Only after passing the examination by the competent department and obtaining the qualified operation certificate (license), such workers can be allowed to operate independently.

In addition, in order to improve the safety emergency capability of employees, we have also formulated the Emergency Preparation and Response Procedures and regularly organise rescue, fire and evacuation drills, as well as appropriate safety training.

In 2018, there was no work-related fatalities in Neo-Neon, and all employees received safety production training, achieving annual management objectives. There were four cases of ordinary work-related injuries and 42 lost working days due to work injuries were recorded, of which, 2 cases were accidents arising from basketball contest organised by the Company. For this, the Company improved the safety education, called on its staff to warm up before participating team activities, to minimise injuries and improve safety conscientiousness. In addition, the Company further stressed the management of various aspects of the “individuals – machine – environment – management” system in 2018, requiring employees to work in compliance with relevant standards, so as to prevent common industrial-injury accidents.

3.5 Occupational Health

Neo-Neon has defined the guidelines for "providing employees with a safe and comfortable working, and living environment" in the Management Manual of the Company and is committed to "ensure the safety and health of employees" in the Management Manual in strict compliance with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, and has formulated the management system based on the OHS Operation Control Procedures with reference to the OHSAS18001 and SA8000 standards to protect physical and mental health of employees.

"Occupational health" management objectives in the Management Manual:

- Incidence of occupational disease: 0%

Based on the occupational health and safety policy, the Company develops and regularly reviews occupational health and safety work objectives, and circulates management policies to all employees and related parties to enhance overall occupational health and safety awareness of the Company. Based on the OHS Operation Control Procedures, the Industrial Safety Commission is responsible for organising various departments to set up occupational health and safety control points, checking the operation of each production environment, and providing labor insurance for employees in related positions. For the operation points that are prone to major accidents, the Industrial Safety Committee organises the safety and health control points of relevant departments, and clearly identifies the control points, prepares relevant control documents, monitors and records according to the requirements of the control documents.

In order to ensure the implementation of occupational health management, the Industrial Safety Committee checks the safety and health operation control of each department regularly according to the requirements of the OHS Performance Measurement and Monitoring Procedures, to ensure that the operation of the department meets the requirements of relevant procedures and operation instruction. The Quality Department supervises and inspects the operation control of each department regularly, and conducts a comprehensive inspection every three months. The inspection results are recorded in the Operation Control Monitoring Chart. In the event of non-compliance, the Company will follow the Procedures for Non-compliance, Correction and Prevention Measures.

The Company provides employees with a comprehensive health examination mechanism, requires specialised operations personnel and workers exposed to toxic and hazardous substances to undergo regular health checks, and arranges 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 Development and Training

Neo-Neon hopes to grow together with employees and constantly improves the vocational training system and development channels. The Company has prescribed a training chapter in the Staff Manual and has developed the "Human Resource and Training Program Documentation", which provides clear guidance for employee training and development.

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According to the requirements of the "Human Resource and Training Program Documentation", the Education and Training Center has provided an annual training program, and collaborated with relevant departments to provide relevant theoretical and practical training in respect of production, quality, administration, engineering technology and special types of work to employees as per job responsibilities with reference to the job descriptions. After training, all department heads will track and evaluate training results by theoretical examination, operation examination, performance appraisal and observation according to the job nature of the employees, and archive the assessment data.

In order to continuously improve the quality of training content, the Company also seeks input and feedback on training from various departments at the end of each year to improve on training programs for the following year, and summarises the progress of the training programs for the year.

In 2018, a total of 359 employees of Neo-Neon attended training, with an aggregate of 1,441 training hours.

Table 3-3. Employee training of Neo-Neon in 2018

	Number of staff trained (person)	Percentage of staff trained by gender (%)	Training hours (hour)	Average training hours of staff trained (hour/person)
Total number of staff trained	359	n/a	1,441	4.01
Male employees	197	54.9%	664	3.37
Female employees	162	45.1%	777	4.80

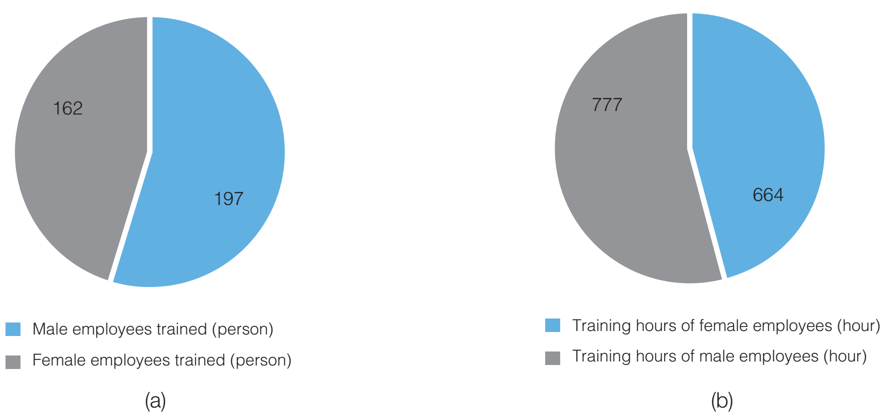

Chart 3-1. Training of Neo-Neon in 2018:
(a) the number of employees trained by gender;
(b) the training hours of employees by gender

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

At the same time, 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 competency 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

Neo-Neon adheres to the principle of "win-win cooperation" and is committed to maintaining fair, stable and efficient cooperation with suppliers. We have formulated and implemented the Procurement Control Policy and the Supplier Review Procedures according to the Company Law of the People's Republic of China and the Labour Contract Law of the People's Republic of China, to control the quality of raw materials and products from the suppliers.

According to the Procurement Control Policy, the Company clearly sets out the responsibilities of the procurement headquarter. The procurement headquarter is responsible for the management and supervision of the procurement operation system and human resources, maintaining procurement system and summarising procurement materials, assisting various departments and branches in developing new materials or new supplies, guiding the evaluation and selection of suppliers, and controlling the procurement process to ensure that the products purchased meet the specified requirements.

In order to ensure the effective operation of the supplier selection and review mechanism, according to the Supplier Review Procedures, the Procurement Department cooperating with the Quality Department, the Engineering Department and other relevant departments approve the new suppliers. The suppliers shall complete the Supplier Quality System Questionnaire, Hazardous Substance Control System Questionnaire, Environmental and Occupational Health and Safety Questionnaire, Mandatory Product Inspection of Factory Quality Assurance Requirements Questionnaire, Quality Requirements Questionnaire of Social Responsibility Questionnaire for qualification screening, and are required to provide "Annual Quality Guarantee", HSF Product Commitment and HSF Product Testing Reports to ensure that their product quality management, environmental and health and safety management capabilities meet the requirements of relevant regulations and standards.

As at 31 December 2018, the total number of the Company's suppliers is 348, with 83% being in Guangdong Province.

Table 4-1 Number and proportion of supplier by region in 2018

Region	Number	Proportion (%)
Within the province	289	83.0%
Outside the province	52	14.9%
Overseas	7	2.0%

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4.2 Promoting Supply Chain to Fulfill Social Responsibilities

Neo-Neon values its environmental management, health and safety and employment compliance, and also actively promotes the ability of supply chain to jointly enhance the ability to fulfil social responsibility. In the SA8000 Social Responsibility Management Manual, the Company requires that “the suppliers and subcontractors understand the requirements of social responsibility standards and gradually improve their social responsibility performance”, and made detailed regulations on suppliers and subcontractors management according to the Supplier Review Procedures, and required the establishment of supplier social responsibility files and maintained evidence and records of supplier evaluation results and improvement measures. In the procurement decision-making, suppliers are selected based on, among other factors, their social responsibility performance, and suppliers with good social responsibility performance and willingness to improve are preferred. Before signing a contract with a supplier, we sign a Social Responsibility Commitment and require the supplier’s commitment to comply with local labor regulations and SA8000 Social Responsibility Standards, and promptly take remedial and corrective actions against any inconsistencies with the SA8000 standards.

In addition, the Procurement Department of the Company selects suppliers for on-site audit according to actual demand, conducts an inspection on its resource conservation product of factory quality assurance requirements, quality requirements system of social responsibility, delivery and service capabilities, and examines its SA8000-based performance management without procuring parts or goods produced by bonded labor, contract or prison labor, etc. or suppliers that have passed the evaluation, we will require them to verify the Annual Quality Guarantee, 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 depending on their rectification.

5 PRODUCT RESPONSIBILITY

5.1 Product and Service Quality

In 2018, Neo-Neon was mainly engaged in lighting and securities businesses. On one hand, the Company clarified the strategic direction of "light asset and attach importance to research and development", and adhered to high standard of product quality, continuously expanded overseas markets; on the other hand, the Company positioned the fund management, investment bank, financial management and technology and financial business in the emerging industry as new pillar businesses, striving to provide quality and high efficiency financial services for customers.

As for lighting business segment, we, in compliance with the Law of the People's Republic of China on Products Quality, have 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. The Company has passed the ISO9001 quality management system certification, and has 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 and five sets of production field detecting instruments that can be used for testing products in respect of safety standards, photoelectricity, EMC, environmental protection and environment (reliability), etc..

As for securities business segment, we, in compliance with the Securities Law of the People's Republic of China, the Regulations on the Supervision and Administration of Securities Companies and relevant regulations, have developed and set up a high efficiency business management system, providing a quality wealth management and asset management platform for the customers. Meanwhile, by way of investment, we committed to facilitate customers in realising innovative industry incubation, and to provide full-fledged financial consultancy services including equity investment, debt, structural financing, cross-border merger and acquisition.

5.2 Product Recall

As product recall is applicable to defective products causing health and safety concerns in the Neo-Neon's lighting business segment. To enhance the brand image of the Company, the Company has formulated 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 mitigate potential disqualification factors to ensure product quality and safety.

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In order to improve the Company's response capability towards possible major issue of the product quality, Neo-Neon has clearly defined and classified the responsibilities of departments involved during the course of product recall in according to the Product Recall Control Procedures: the Market Department is responsible for handling information feedback for product recall, the Quality Department is responsible for analyzing the reasons for product quality issue and its resolution, and the product recall team is responsible for specific measures of product recall. The control procedure defines the product quality issue and divides it into three categories, and the related departments will follow up and handle it according to classification, establish archives for product complaints, trace and keep the product records, determine the types of recall products, and set up a product recall team responsible for implementing the recall plan. During the recall process, the relevant department will communicate with the seller or agencies involved regularly, to understand the progress of product recall.

To ensure recall efficiency, the Company specified in the control procedure that "when confirming product defects, the Company should report in writing to competent authorities within five working days, and inform sellers to suspend selling the defective products in an effective manner within 10 working days".

In 2018, the Company did not have any product recalls for safety and health reasons.

5.3 Customer Service

Neo-Neon attached great importance to customers' service experience and satisfaction, and formulated and implemented the Customer Satisfactions Measurement Procedure and the Procedure for Customer-Related Control, constantly improving the service quality and ensuring that users' opinions are timely replied and properly handled.

According to the Customer Satisfactions Measurement Procedure, the Company set up the procedures for handling customers' feedback, requiring the Market Department to communicate with the customers and to keep records of their complaints with reference to the Procedure for Customer-Related Control, the Quality Department to follow up and confirm the product quality and the customers' return application, and the Production Department to assist analysis and review of customers' complaints, and to formulate the improvement and prevention measures. In addition, the procedure requires the Company to respond to customers' comments within 24 hours, and to reply in writing of effective improvement actions within 5 working days.

In 2018, Neo-Neon received 20 inquiries and complaints regarding to products and services, decreased by six as compared to 2017.

In addition, Neo-Neon attaches great importance to the customer's information security and privacy protection. The Company may get access to the customer information in lighting business and securities business, thus, we, with reference to the Cybersecurity Law of the People's Republic of China, formulated the Use of Computer, Internet and Mail Standards to regulate the staff's operation and usage of the customer information available in electronic systems. Meanwhile, the Company verified, stored and maintained the personal information provided by customers according to the Customer Property Control Procedures, so as to protect the personal information and privacy security of customers.

In 2018, there was no breach of customer privacy or personal information.

5.4 Intellectual Property Management

In 2018, the Company emphasised the development strategy of "attaching importance to research and development", paying great attention to protection of intellectual property right. We have formulated and implemented the Intellectual Property Provisions, to regulate the intellectual property management and to encourage the employee's enthusiasm in invention and innovation.

The provisions clearly stipulate the ownership, registration, management and maintenance of the intellectual property and the rewards for the invention of intellectual property, and clarify that the standard patent division shall take full responsibility on the application, validity extension and information update, and infringement prevention of the Company's intellectual properties.

In addition, according to the Collection and Evaluation Procedures of Laws and Regulations, the quality department and the standards team, together with other relevant departments, made assessment on the compliance of laws and regulations including laws on intellectual property rights semiannually, and continuously improved the management level of the Company in the aspect of intellectual property protection.

6 INTEGRITY AND SOUND GOVERNANCE

To strengthen internal control, reduce the operational risk, standardise the operation, Neo-Neon strictly abided by the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery and other regulations relating to anti-corruption, bribery, fraud and money laundering, and has formulated and executed the Anti-fraud Management System and the Fighting Corruption and Boosting Integrity Policy.

The Anti-fraud Management System clearly defines the concept and form of fraud, clarifies the responsibility of anti-fraud, and sets up corresponding prevention and control measures. At the same time, by virtue of the declaration of principles of fighting corruption and boosting integrity by passing the Fighting Corruption and Boosting Integrity Policy, the Company fought against any kind of corruption and provides a reporting hotline for employees at all levels, suppliers, customers and other communities to report suspicious situation to the Company in a timely manner.

In 2018, there were no concluded legal cases regarding corrupt practices brought against the Company or its employees.

7 COMMUNITY SUPPORT

Neo-Neon is continuously paying back to the community, proactively commits to charitable donations and organises community services, and undertakes public welfare as an important part of corporate social responsibility. In 2018, Neo-Neon focused on community care and helping employees with difficulties. The Company successively organised several community elderly care activities and provided condolence to employees with difficulties, with RMB30,680 in total contributed.

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Case: Charity bazaar of lighting equipment for supporting staff in poverty

In November 2018, Neo-Neon attended the "Heartful Service of Party and Community • Activities in Industrial City (黨群心服務 • 活動工業城)" organised by the Party Committee of Heshan Industrial City. The Company conducted a charity bazaar in EU-China Innovation Centre, raising proceeds of more than RMB6,000 from sales of 12 boxes of lighting equipment, which was donated to the staff in poverty.

8 LIST OF REGULATIONS AND POLICIES

ESG Subject	Laws and regulations complied	Internal management policy
A1. Emissions	Environmental Protection Law of the People's Republic of China Law of the People's Republic of China on the Prevention of Environmental Pollution Caused by Solid Waste Law of the People's Republic of China on Prevention and Control of Water Pollution Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution	Environment and Occupational Health Policy Identification and Assessment of Environmental Factors Procedures for Harmful Substance Management New Project Environment and OHS Impact Management Procedures Management Procedures Imposed on Impact of the Environmental and OHS Behaviors of Related Parties Procedures for Operational Control of Environmental Aspects Hazardous Chemicals Management Procedures Water Pollution Control Procedures Soil Pollution Prevention Procedures Waste Water and Waste Gas Emission and Noise Control Management Procedures Resource and Energy Saving Control Procedures Organisation Procedures for Environmental Analysis and Risk Control
A2. Use of Resources	Energy Conservation Law of the People's Republic of China	Resource and Energy Saving Control Procedures
A3. Environment and natural resources	Environmental Protection Law of the People's Republic of China	Environment and Occupational Health Policy Identification and Assessment of Environmental Factors

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ESG Subject	Laws and regulations complied	Internal management policy
B1. Employment	Labour Law of the People's Republic of China Labour Contract Law of the People's Republic of China Social Security Law of the People's Republic of China Law on the Protection of Labour Rights and Interests Provisions on the Prohibition against Using Child Labor	Human Resource and Training Program Documentation Neo-Neon Staff Manual (2018 Edition) Child Labour Rescue Procedures Management Procedure for Female and Minor Employees Procedures for Prevention of Discrimination and Harassment Overtime Management Procedures Disciplinary Control Procedures Labour and Business Ethics Risk Management Procedures Staff Complaint Handling Procedures Social Responsibility Policies
B2. Health and Safety	Production Safety Law of the People's Republic of China Labour Law of the People's Republic of China Labour Contract Law of the People's Republic of China Law on the Prevention and Treatment of Occupational Diseases of the People's Republic of China	Environment and Occupational Health Policy Procedures for Hazard Identification, Risk Evaluation and Risk Control Planning Procedures for Risk Control Assessment on Hazardous Substance Procedures for Harmful Substance Management New Project Environment and OHS Impact Management Procedures Management Procedures Imposed on Impact of the Environmental and OHS Behaviors of Related Parties OHS Operation Control Procedures AIDS Prevention and Control Procedures Emergency Response Procedures
B3. Development and Training	Labour Law of the People's Republic of China Labour Contract Law of the People's Republic of China	Human Resource and Training Program Documentation Neo-Neon Staff Manual (2018 Edition)
B4. Labour Standards	Labour Law of the People's Republic of China Labour Contract Law of the People's Republic of China	Child Labour Rescue Procedures Management Procedure for Female and Minor Employees Social Responsibility Policies

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ESG Subject	Laws and regulations complied	Internal management policy
B5. Supply Chain Management	Company Law of the People's Republic of China Contract Law of the People's Republic of China	Supplier Review Procedures Procurement Control Policy Incoming Inspection and Testing Procedures Final Inspection and Testing Procedures
B6. Product Responsibility	Product Quality Law of the People's Republic of China Advertisement Law of the People's Republic of China	Procedure for Customer-Related Control Production and Service Provision Program Control Procedures Product Identification and Traceability Customer Property Control Procedures Customer Satisfactions Measurement Procedures Control Procedure of Internal Audit Unqualified Product Control Program Procedures for Non-compliance, Correction and Prevention Measures Control Procedures for Product Consistency Product Hazard and Risk Management Procedures Product Recall Control Procedures
B7. Anti-corruption	Anti-Unfair Competition Law of the People's Republic of China Interim Provisions on Banning Commercial Bribery	Fighting Corruption and Boosting Integrity Policy
B8. Community Investment	Laws and Regulations of the People's Republic of China on Donation of Public Welfare	n/a

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9 INDICATORS INDEX

This indicators index states the compliance of the Company with provisions of each indicator of "comply or explain" and with disclosure requirement of indicators regarding "recommended disclosures" set out in the ESG Guide during the reporting period.

GENERAL DISCLOSURE AND KPIS	DESCRIPTION	SECTION	REMARKS
ENVIRONMENTAL			
ASPECT A1: EMISSIONS			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection	
KPI A1.1	The types of emissions and respective emissions data.	Environmental Protection	No emission of nitrogen oxide and sulfur oxide involved during the Company's production.
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection	
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection	
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection	
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Environmental Protection	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Environmental Protection	

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GENERAL DISCLOSURE AND KPIS	DESCRIPTION	SECTION	REMARKS
ASPECT A2: USE OF RESOURCES			
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Protection	
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).	Environmental Protection	
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Environmental Protection	
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Environmental Protection	
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Environmental Protection	
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Environmental Protection	
ASPECT A3: THE ENVIRONMENT AND NATURAL RESOURCES			
General disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Protection	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Protection	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GENERAL DISCLOSURE AND KPIS	DESCRIPTION	SECTION	REMARKS
SOCIAL			
EMPLOYMENT AND LABOUR PRACTICES			
ASPECT B1: EMPLOYMENT			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment Management	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment Management	
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment Management	
ASPECT B2: HEALTH AND SAFETY			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment Management	
KPI B2.1	Number and rate of work-related fatalities.	Employment Management	
KPI B2.2	Lost days due to work injury.	Employment Management	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Employment Management	

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GENERAL DISCLOSURE AND KPIS	DESCRIPTION	SECTION	REMARKS
ASPECT B3: DEVELOPMENT AND TRAINING			
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employment Management	
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Employment Management	
KPI B3.2	The average training hours completed per employee by gender and employee category.	Employment Management	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment Management	
ASPECT B4: LABOUR STANDARDS			
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employment Management	
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Employment Management	
OPERATING PRACTICES			
ASPECT B5: SUPPLY CHAIN MANAGEMENT			
General disclosure	General Disclosure Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	
KPI B5.1	Number of suppliers by region.	Supply Chain Management	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management	

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GENERAL DISCLOSURE AND KPIS	DESCRIPTION	SECTION	REMARKS
ASPECT B6: PRODUCT RESPONSIBILITY			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility	
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility	
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility	
ASPECT B7: ANTI-CORRUPTION			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Integrity and Sound Governance	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Integrity and Sound Governance	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Integrity and Sound Governance	

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GENERAL DISCLOSURE AND KPIS	DESCRIPTION	SECTION	REMARKS
COMMUNITY			
ASPECT B8: COMMUNITY INVESTMENT			
General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Support	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Support	
KPI B8.2	Resources contributed (e.g. funds or time) to the focus area.	Community Support	

INDEPENDENT AUDITOR'S REPORT

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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 84 to 188, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment allowance of trade and bills receivables	
As at 31 December 2018, trade and bills receivables amounted to RMB155.8 million after providing for impairment of RMB8.6 million, representing 6.2% of total assets. Significant management judgement and estimation were required in assessing the expected credit losses ("ECL") for the trade and bills receivables. In developing the ECL methodology, the Group is required to consider reasonable and supportable information including the ageing of the balance, existence of disputes and recent historical payment patterns in order to determine an unbiased estimate. Significant judgement is also required to adjust the loss rate for forecast economic conditions. The significant accounting judgements and estimates and disclosure of the balance of trade and bills receivables are included in notes 3 and 20 to the consolidated financial statements.	In evaluating management's provision of impairment allowance, our procedures included: • Tested, on a sample basis, the accuracy of the ageing information of the Group's trade and bills receivables balances and obtained confirmations for selected trade receivables on a sample basis; • Reviewed management's ECL calculation model and tested the underlying information including ageing information generated by the Group's financial reporting system, probability of default date and loss given default published by rating agencies as the forward-looking factors with reference to the related publicly available information; • Evaluated on the sample basis the reasonableness of probability of default assigned to individual debtors given the information available to the Group over the credibility of these debtors such as their repayment history; • Checked to the post year-end cash receipts for a sample of year-end trade and bills receivables balances; and • Evaluated the appropriateness of the related disclosures made by the directors in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment on cash-generating units ("CGUs") As at 31 December 2018, the Group had goodwill at a carrying amount of RMB120.9 million relating to the acquisition of Tongfang Securities Limited ("Tongfang Securities") in 2017. Tongfang Securities is engaged in the provision of financial services in Hong Kong. The risk that we focused on in our audit is the risk of impairment of goodwill. Given the high level of management judgement in the impairment assessment, we considered this area to be important to our audit. The significant accounting judgements and estimates and the disclosure of the balance of goodwill are included in notes 3 and 16 to the consolidated financial statements.	In evaluating management's impairment assessment of goodwill, our procedures included: • Engaged our internal valuation expert to evaluate the appropriateness of the methodology adopted by management and the discount rate applied; • Evaluated the independent external valuer's competence, capabilities and objectivities; • Reviewed the key assumptions based on our knowledge of the Group's business and industry trend and by benchmarking against independent data; • Tested a selection of data inputs underpinning the cash flow forecasts against appropriate supporting evidence, such as approved budgets and actual data, to assess the accuracy and reliability; and • Assessed whether the disclosures of impairment assessment in the consolidated financial statements are sufficient and appropriate.
Net realisable value of inventories As at 31 December 2018, the net carrying amount of the Group's inventories amounted to RMB198.2 million, which was netted of impairment provision of RMB81.7 million. The measurement of inventories provision required significant management judgement in determining an appropriate costing basis and assessing if their net realisable value was lower than the carrying amount of the inventories at the year end. There were also judgements required in determining inventory excess and obsolescence provisions as these were based on forecast inventory usage. Relevant disclosures are included in notes 3 and 19 to the consolidated financial statements for the year ended 31 December 2018.	In evaluating management's measurement of inventories provision, our procedures included: • Evaluated the methodology and performed test of controls over the costing basis of inventories with the assistance from our internal specialists; and • Assessed the inventory excess and obsolescence provision policy and considered management's judgement by comparing it to the historical data of finished goods on a sample basis. We also assessed the net realisable values by comparing the unit prices of subsequent sales with the unit costs for significant items. In addition, we examined the ageing and subsequent usage report of the inventories and future production and scale plan to verify if the provision is sufficient.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

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. Our 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.

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.

INDEPENDENT AUDITOR'S REPORT

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

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the 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 Lam, Wai Ming, Ada.

Ernst & Young
Certified Public Accountants
Hong Kong

20 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 *RMB'000*	2017 *RMB'000*
REVENUE	5	**693,698**	665,724
Cost of sales		**(489,568)**	(457,634)
Gross profit		**204,130**	208,090
Other income, gains and losses, net	5	**225,603**	142,600
Impairment losses on financial assets, net	6	**(3,268)**	(1,368)
Selling and distribution expenses		**(111,937)**	(90,146)
Administrative expenses		**(154,280)**	(128,199)
Finance costs	7	**(14,874)**	(4,658)
PROFIT BEFORE TAX	6	**145,374**	126,319
Income tax credit/(expense)	10	**563**	(5,838)
PROFIT FOR THE YEAR		**145,937**	120,481
Attributable to:			
Owners of the parent		**145,792**	120,375
Non-controlling interests		**145**	106
		145,937	120,481
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB6.96 cents**	RMB5.72 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR		145,937	120,481
OTHER COMPREHENSIVE INCOME/(LOSS):			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Change in fair value		–	(13,285)
Exchange differences:			
Exchange differences on translation of foreign operations		24,146	(57,271)
Reclassification adjustment for derecognition of foreign operations during the year	34	(5,004)	–
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		19,142	(70,556)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		(688)	–
Surplus on revaluation upon transfer of prepaid land lease payments to investment properties	15	163,207	–
Income tax effect		(48,962)	–
		114,245	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		113,557	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		132,699	(70,556)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		278,636	49,925
Attributable to:			
Owners of the parent		278,358	49,964
Non-controlling interests		278	(39)
		278,636	49,925

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 *RMB'000*	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	13	**83,450**	130,394
Investment properties	14	**772,965**	14,200
Prepaid land lease payments	15	**46,321**	30,469
Goodwill	16	**129,421**	123,454
Other intangible assets	17	**44,483**	35,404
Available-for-sale investments	18	**–**	3,324
Equity investments designated at fair value through other comprehensive income	18	**624**	–
Prepayments and other assets	21	**85,683**	–
Financial assets at fair value through profit or loss	23	**130,989**	111,166
Deferred tax assets	29	**7,005**	6,179
Total non-current assets		**1,300,941**	454,590
CURRENT ASSETS			
Inventories	19	**198,205**	177,395
Trade and bills receivables	20	**155,844**	137,107
Loan receivables	22	**300,922**	–
Prepayments, other receivables and other assets	21	**95,290**	101,494
Available-for-sale investments	18	**–**	321,079
Prepaid lease payments	15	**1,081**	–
Equity investments designated at fair value through other comprehensive income	18	**600**	–
Financial assets at fair value through profit or loss	23	**194,333**	21,571
Tax recoverable		**2,527**	–
Pledged deposits	24	**34,307**	13,322
Cash held on behalf of clients	24	**4,056**	90,321
Cash and cash equivalents	24	**229,819**	435,964
Total current assets		**1,216,984**	1,298,253
CURRENT LIABILITIES			
Trade and bills payables	25	**101,798**	170,761
Other payables and accruals	26	**64,193**	63,163
Interest-bearing bank borrowings	27	**227,323**	70,243
Tax payable		**–**	40
Provision	28	**9,546**	903
Total current liabilities		**402,860**	305,110
NET CURRENT ASSETS		**814,124**	993,143
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,115,065**	1,447,733

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 *RMB'000*	2017 *RMB'000*
NON-CURRENT LIABILITIES			
Government grants		6,725	7,475
Deferred tax liabilities	29	51,540	6,459
Loan from the ultimate holding company	39	350,000	–
Total non-current liabilities		408,265	13,934
Net assets		1,706,800	1,433,799
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	185,676	186,912
Reserves	32	1,518,142	1,242,923
		1,703,818	1,429,835
Non-controlling interests		2,982	3,964
Total equity		1,706,800	1,433,799

Seah Han Leong
Director

Daniel P. W. Li
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent														
	Share capital (note 30) RMB'000	Treasury shares RMB'000	Share premium (note 32) RMB'000	Capital redemption reserve (note 32) RMB'000	Special reserve (note 32) RMB'000	Share compensation reserve (note 32) RMB'000	Share option reserve (note 31) RMB'000	Exchange fluctuation reserve (note 32) RMB'000	Available for-sale investments revaluation/ fair value reserve (note 32) RMB'000	Asset revaluation reserve (note 32) RMB'000	Other reserve (note 32) 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 loss for the year:															
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	–	(13,285)	–	–	–	(13,285)	–	(13,285)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(57,126)	–	–	–	–	(57,126)	(145)	(57,271)
Total comprehensive income for the year	–	–	–	–	–	–	–	(57,126)	(13,285)	–	–	120,375	49,964	(39)	49,925
Issue of shares	15,670	–	166,098	–	–	–	–	–	–	–	–	–	181,768	–	181,768
Share repurchase	–	(11,304)	–	–	–	–	–	–	–	–	–	–	(11,304)	–	(11,304)
Cancellation of treasury shares	(566)	5,004	(5,004)	566	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	–	–	1,601	–	–	–	–	–	1,601	–	1,601
Exercise of share options	–	–	–	–	–	–	(682)	–	–	–	(682)	–	(1,364)	3,222	1,858
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
Effect of adoption of HKFRS 9 (note 2.2)	–	–	–	–	–	–	–	–	11,445	–	–	(12,584)	(1,139)	–	(1,139)
At 1 January 2018 (restated)	186,912	(6,300)	2,425,111	910	55,238	50,024	7,308	(282,700)	(1,840)	-	(9,100)	(996,867)	1,428,696	3,964	1,432,660
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	145,792	145,792	145	145,937
Other comprehensive income for the year:															
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	24,013	-	-	-	-	24,013	133	24,146
Reclassification of exchange fluctuation reserve to profit or loss upon derecognition of subsidiaries	-	-	-	-	-	-	-	(5,004)	-	-	-	-	(5,004)	-	(5,004)
Changes in fair value of equity investments at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(688)	-	-	-	(688)	-	(688)
Surplus on revaluation upon transfer of prepaid land lease payments to investment properties, net of tax	-	-	-	-	-	-	-	-	-	114,245	-	-	114,245	-	114,245
Total comprehensive income for the year	-	-	-	-	-	-	-	19,009	(688)	114,245	-	145,792	278,358	278	278,636
Share repurchase	-	(3,664)	-	-	-	-	-	-	-	-	-	-	(3,664)	-	(3,664)
Cancellation of treasury shares	(1,236)	9,964	(9,964)	1,236	-	-	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	428	-	-	-	-	-	428	-	428
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	-	-	(298)	-	-	-	-	298	-	-	-
Derecognition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,260)	(1,260)
At 31 December 2018	185,676	-*	2,415,147*	2,146*	55,238*	50,024*	7,438*	(263,691)*	(2,528)*	114,245*	(9,100)*	(850,777)*	1,703,818	2,982	1,706,800

* These reserve accounts comprise the consolidated reserves of RMB1,518,142,000 (2017: RMB1,242,923,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		145,374	126,319
Adjustments for:			
Finance costs	7	14,874	4,658
Bank interest income	5	(2,950)	(3,383)
Interest income recognised for money lending business	5	(19,776)	–
Loss/(gain) on disposal/derecognition of subsidiaries	5	3,047	(110,649)
Depreciation	6	19,855	19,425
Amortisation of land lease payments	6	1,634	804
Amortisation of other intangible assets	6	3,660	2,710
Amortisation of deferred development costs	6	3,329	2,419
Amortisation of government grants		(750)	(5,509)
Changes in fair value of investments properties	5	7,772	500
Fair value gains of financial assets at fair value through profit or loss	5	(3,874)	(11,614)
Impairment of available-for-sale investments transfer from equity on disposal	5	–	315
Dividend income from financial assets at fair value through profit or loss	5	(594)	–
Dividend income available-for-sale investments	5	–	(21,058)
Loss/(gain) on disposal of items of property, plant and equipment	5	43,101	(496)
Loss on written-off of intangible assets	6	217	–
Write-down of inventories to net realisable value	6	9,807	6,462
Impairment losses on financial assets	6	3,268	1,368
Equity-settled share option expenses	6	428	1,601
		228,422	13,872
(Increase)/decrease in inventories		(30,684)	459
Increase in trade and bills receivables		(22,648)	(22,463)
Increase in loan receivables		(292,390)	–
Increase in prepayments, other receivables and other assets		(83,427)	(6,437)
Decrease/(increase) in cash held on behalf of clients		86,265	(90,321)
(Decrease)/increase in trade and bills payables		(72,983)	77,213
Increase/(decrease) in other payables and accruals		1,861	(23,046)
Increase in provision		8,643	–
Cash generated used in operations		(176,941)	(50,723)
Interest income received from money lending business		10,591	–
Hong Kong profits tax paid		–	(6,737)
Overseas taxes paid		(6,711)	(22,132)
Net cash flows used in operating activities		(173,061)	(79,592)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received		2,950	3,383
Purchase of items of property, plant and equipment		(20,985)	(15,487)
Purchase of items of prepaid land lease payments		(29,468)	–
Additions to an investment property		(592,157)	–
Proceeds from disposal of items of property, plant and equipment		7,088	13,399
Additions to other intangible assets		(12,519)	(5,583)
Purchase of equity investments designated at fair value through other comprehensive income/available-for-sale investments		–	(348,600)
Purchase of financial assets at fair value through profit or loss		(633,023)	–
Proceeds from disposal of financial assets at fair value through profit or loss		763,681	–
Acquisition of a subsidiary		–	40,768
Purchase of listed equity securities at fair value		–	(13,499)
Dividend received from available-for-sale investments		–	21,058
Dividend received from financial assets at fair value through profit or loss		594	–
(Increase)/decrease in pledged deposits		(20,985)	14,345
Disposal of subsidiaries, net of cash and cash equivalents disposed of		–	249,718
Net cash flows used in investing activities		(534,824)	(40,498)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans from shareholders		642,659	–
New bank loans		222,424	174,985
Repayment of loans from shareholders		(292,659)	–
Repayment of bank loans		(70,243)	(210,633)
Interest paid		(14,874)	(4,658)
Payment for repurchase of shares		(3,664)	(11,304)
Net cash flows from/(used in) financing activities		483,643	(51,610)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(224,242)	(171,700)
Cash and cash equivalents at the beginning of year		435,964	649,306
Effect of foreign exchange rate changes, net		18,097	(41,642)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	24	229,819	435,964

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

1. CORPORATE AND GROUP INFORMATION

Neo-Neon Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-111, Cayman Islands, and the Company's head office and principal place of business is located at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was engaged in the following principal activities:

- manufacture and trading of lighting products
- provision of lighting solution
- provision of asset management services
- provision of investment advisory services
- provision of securities brokerage services

In the opinion of the directors of the Company, the holding company and the ultimate holding company of the Company is THTF Energy-Saving Holdings Limited and 同方股份有限公司 ("Tsinghua Tongfang Co., Limited"), which are incorporated in the Cayman Islands and the People's Republic of China ("PRC"), respectively.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Guangdong Tongfang Science Park Company Limited ("Tongfang Science Park") (former known as Heshan Tongfang Lighting Technology Limited)*	PRC	US$300,000,000	–	100%	Manufacture and sale of lighting products
Star Bright International (Macao Commercial Offshore) Ltd.	Macau	MOP100,000	–	100%	Trading of lighting products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tongfang Securities Limited ("Tongfang Securities")	Hong Kong	HK$450,000,000	–	100%	Asset management services, investment advisory services and securities trading
American Lighting, Inc.	United States of America ("USA")	US$7,944,505	–	100%	Lighting solution provider
Tivoli, LLC	USA	US$4,500,000	–	100%	Lighting solution provider

* Registered as a wholly-foreign-owned enterprise under the law of PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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. They have been prepared under the historical cost convention, except for investments properties, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs, are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement Category	HKAS 39 measurement Amount RMB'000	Re-classification RMB'000	Fair value adjustments/ ECLs RMB'000	HKFRS 9 measurement Amount RMB'000	HKFRS 9 measurement Category
Financial assets							
Equity investments designated at fair value through other comprehensive income		N/A	–	3,324	(1,412)	1,912	FVTOCI[1] (equity)
From: Available-for-sale investments	(i)			3,324	–		
Available-for-sale investments		AFS[2]	324,403	(324,403)	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			(3,324)	–		
To: Financial assets at fair value through profit or loss	(ii)			(321,079)	–		
Trade and bills receivables		L&R[3]	137,107	–	217	137,324	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	21,210	–	56	21,266	AC
Financial assets at fair value through profit or loss		FVTPL[5]	132,737	321,079	–	453,816	FVTPL (mandatory)
From: Available-for-sale investments	(ii)			321,079	–		
Pledged deposits		L&R	13,322	–	–	13,322	AC
Cash held on behalf of clients		L&R	90,321	–	–	90,321	AC
Cash and cash equivalents		L&R	435,964	–	–	435,964	AC
Total assets			1,752,843	–	(1,139)	1,751,704	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows: (continued)

	HKAS 39 measurement		Re-	Fair value adjustments/	HKFRS 9 measurement	
	Category	Amount	classification	ECLs	Amount	Category
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Financial liabilities						
Trade and bills payables	AC	170,761	–	–	170,761	AC
Financial liabilities included in other payables and accruals	AC	47,267	–	–	47,267	AC
Interest-bearing bank borrowings	AC	70,243	–	–	70,243	AC
Total liabilities		319,044	–	–	319,044	

1 FVTOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost
5 FVTPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments designated at fair value through other comprehensive income. Equity investments previously measured at cost under HKAS 39 remeasured at fair value upon adoption of HKFRS 9.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 20 and 21 to the consolidated financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 *RMB'000*	**Re-measurement** *RMB'000*	**ECL allowances under HKFRS 9 at 1 January 2018** *RMB'000*
Trade receivables	46,312	(217)	46,095
Financial assets included in prepayments, other receivables and other assets	2,363	(56)	2,307
	48,675	(273)	48,402

Impact on reserves and accumulated loss

The impact of transition to HKFRS 9 on reserves and accumulated loss is as follows:

	Reserves and accumulated loss *RMB'000*
Fair value reserve under HKFRS 9 (available-for-sale investments revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	(13,285)
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	13,285
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	(1,412)
Reversal of impairment losses under HKAS 39 for equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments	(428)
Balance as at 1 January 2018 under HKFRS 9	(1,840)
Accumulated loss	
Balance as at 31 December 2017 under HKAS 39	(984,283)
Recognition of expected credit losses under HKFRS 9	273
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	(13,285)
Reversal of impairment losses under HKAS 39 for equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments	428
Balance as at 1 January 2018 under HKFRS 9	(996,867)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the consolidated financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the consolidated financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of accumulated loss as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Note	**Increase/ (decrease)** *RMB'000*
Liabilities		
Other payables and accruals		
– Receipts in advance	(i)	(11,866)
– Contract liabilities	(i)	11,866
Total liabilities		–

The adoption of HKFRS 15 has had no impact on profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Note	**HKFRS 15** *RMB'000*	**Previous HKFRS** *RMB'000*	**Increase/ (decrease)** *RMB'000*
Liabilities				
Other payables and accruals				
– Receipts in advance	(i)	–	15,727	(15,727)
– Contract liabilities	(i)	15,727	–	15,727
Total liabilities		15,727	15,727	–

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 are described below:

(i) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in receipts in advance included in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities which is also included in other payables and accruals. Therefore, upon adoption of HKFRS 15, the Group reclassified RMB11,866,000 from receipts in advance to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB15,727,000 was reclassified from receipts in advance to contract liabilities in relation to the consideration received from customers in advance for the sale of lighting products.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of accumulated losses at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB20,714,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019. The amendments are not expected to have any significant impact on Group's financial statements.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, equity investments and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;

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Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(b) (continued)

(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); and

(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 parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements	20%
Plant and machinery	10%
Furniture, fixtures and equipment	15% – 20%
Motor vehicles	20%
Moulds	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as movements in asset revaluation reserve if there is a gain, or charged to the statement of profit or loss if there is a loss. On disposal of the transferred asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuation is transferred to accumulated losses as a movement in reserves.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Securities licenses

Purchased securities licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Software

Purchased software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 1 to 5 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding 5 years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets designated at FVTOCI (equity investments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at FVTOCI when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at FVTOCI are not subject to impairment assessment.

Financial assets at FVTPL
Financial assets at FVTPLs include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at FVTOCI. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at FVTPL, loans and receivables, and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at FVTPL.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on this classification as follows:

Financial assets at FVTPL
Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value presented as gains and losses, net in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at FVTPL are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in gains and losses, net.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at FVTPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investments revaluation reserve until the investments are derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in gains and losses, net, or until the investments are determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investments revaluation reserve to the statement of profit or loss in gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investments or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investments using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investments and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade, bills and other payables, interest-bearing bank borrowings and a loan from the ultimate holding company.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings
After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

(a) *Sale of lighting products*
Revenue from the sale of lighting products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the lighting products.

(b) *Provision of advisory and asset management services*
Revenue from provision of advisory and asset management services is recognised over time as the services are rendered. Fees for asset management services are calculated based on a fixed percentage of the value of asset managed and deducted from the customer's account balance on a regular basis as mutually agreed.

(c) *Provision of agency services*
Revenue from provision of agency services, is recognised at the point in time when the transactions have been complete.

Revenue from other sources

Interest revenue is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Other income

Rental income is recognised on a time proportion basis over the lease terms.

Dividend income is recognised when the shareholders' right to receive payment has been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable before 1 January 2018)

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the sale of listed securities is completed on the trade date;

(c) from advisory and asset management services, when services are rendered;

(d) from consultancy agency services, when the transactions have been complete;

(e) rental income, on a time proportion basis over the lease terms;

(f) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(g) Dividend income, when the shareholders' right to receive payment has been established.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits (continued)

Pension schemes (continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 10% to 20% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Company is Hong Kong dollars ("HK$"). Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB129,421,000 (2017: RMB123,454,000). Further details are given in note 16 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for expected credit losses on trade and loan receivables

The Group uses a provision matrix to calculate ECLs for trade and loan receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by industry and individual credit rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and loan receivables is disclosed in note 20 and 22 to the consolidated financial statements.

Write-down of inventories to net realisable value

Management reviews the condition of inventories of the Group and writes down the carrying amounts of obsolete and slow-moving inventories items which are identified as no longer suitable for sale or use to their respective net realisable values. The Group estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions at the end of each of the reporting periods.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been made. The carrying amount of inventories at 31 December 2018 was RMB198,205,000 (2017: RMB177,395,000).

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; and

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices.

The carrying amount of investment properties at 31 December 2018 was RMB772,965,000 (2017: RMB14,200,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- the PRC lighting segment consists of research and development, manufacture of lighting products in the PRC and distribution of lighting products in the PRC and overseas;

- the USA lighting segment consists of provision of lighting solutions in the USA; and

- the securities segment consists of asset management services, investment advisory services and securities trading.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, government grants, changes in fair value of investment properties, changes in fair value of equity investments at FVTPL, as well as unallocated corporate gains and expenses are excluded from this measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, equity investments designated at FVTOCI, financial assets at FVTPL, available-for-sale investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, a loan from the ultimate holding company, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018

	PRC lighting RMB'000	USA lighting RMB'000	Securities RMB'000	Total RMB'000
Segment revenue (Note 5):				
Sales to external customers	207,405	451,553	14,964	673,922
Interest revenue	–	–	19,776	19,776
Intersegment sales	18,330	–	–	18,330
	225,735	451,553	34,740	712,028
Reconciliation:				
Elimination of intersegment sales				(18,330)
Revenue				693,698
Segment results	1,346	9,244	(19,126)	(8,536)
Reconciliation:				
Interest income and unallocated gains				28,439
Finance costs				(14,874)
Government grants				235,404
Fair value losses on investment properties				(7,772)
Fair value gains on financial assets at FVTPL				3,874
Unallocated expenses				(91,161)
Profit before tax				145,374
Segment assets	1,405,624	273,998	506,769	2,186,391
Reconciliation:				
Elimination of intersegment receivables				(273,401)
Equity investments designated at FVTOCI				1,224
Financial assets at FVTPL				325,322
Tax recoverable				2,527
Deferred tax assets				7,005
Pledged deposits				34,307
Cash and cash equivalents				229,819
Corporate and other unallocated assets				4,731
Total assets				2,517,925
Segment liabilities	108,868	83,817	256,150	448,835
Reconciliation:				
Elimination of intersegment payables				(273,400)
Interest-bearing bank loans				227,323
Loan from the ultimate holding company				350,000
Deferred tax liabilities				51,540
Corporate and other unallocated liabilities				6,827
Total liabilities				811,125

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018 (continued)

	PRC lighting RMB'000	USA lighting RMB'000	Securities RMB'000	Total RMB'000
Other segment information:				
Impairment losses/(reversal of impairment) on financial assets	(588)	299	3,557	3,268
Provision for inventories included in cost of inventories sold	5,453	4,354	–	9,807
Depreciation	16,225	2,211	1,419	19,855
Capital expenditure*	646,675	7,335	1,119	655,129

* Capital expenditure represents additions to property, plant and equipment, investment properties, prepaid land lease payments and intangible assets.

Year ended 31 December 2017

	PRC lighting RMB'000	USA lighting RMB'000	Securities RMB'000	Total RMB'000
Segment revenue (Note 5):				
Sales to external customers	214,787	414,520	36,417	665,724
Intersegment sales	11,810	–	–	11,810
	226,597	414,520	36,417	677,534
Reconciliation:				
Elimination of intersegment sales				(11,810)
Revenue				665,724
Segment results	92,299	15,451	35,420	143,170
Reconciliation:				
Interest income and unallocated gains				106,445
Finance costs				(4,658)
Government grants				5,515
Fair value losses on investment properties				(500)
Fair value gains on financial assets at FVTPL				11,614
Unallocated expenses				(135,267)
Profit before tax				126,319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2017 (continued)

	PRC lighting *RMB'000*	USA lighting *RMB'000*	Securities *RMB'000*	Total *RMB'000*
Segment assets	466,736	204,314	160,165	831,215
Reconciliation:				
Elimination of intersegment receivables				(1,018)
Available-for-sale investments				324,403
Financial assets at FVTPL				132,737
Deferred tax assets				6,179
Pledged deposits				13,322
Cash and cash equivalents				435,964
Corporate and other unallocated assets				10,041
Total assets				1,752,843
Segment liabilities	87,993	46,110	105,101	239,204
Reconciliation:				
Elimination of intersegment payables				(1,018)
Interest-bearing bank borrowings				70,243
Tax payable				40
Deferred tax liabilities				6,459
Corporate and other unallocated liabilities				4,116
Total liabilities				319,044
Other segment information:				
Impairment/(reversal of impairment) of trade receivables	1,656	(288)	–	1,368
Provision for inventories included in cost of inventories sold	5,411	1,051	–	6,462
Depreciation	15,057	2,900	1,468	19,425
Capital expenditure*	12,121	1,601	16,916	30,638

* Capital expenditure represents additions to property, plant and equipment, investment properties and intangible assets including assets from the acquisition of a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
North America	540,356	527,857
Europe	53,519	41,159
PRC	25,624	28,592
Asia (excluding PRC)	74,174	65,380
Other countries	25	2,736
	693,698	665,724

The revenue information of operations above is based on the locations of the customers.

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
North America	109,792	47,769
Europe	–	160
PRC	901,023	236,644
Asia (excluding PRC)	151,208	49,348
	1,162,323	333,921

The non-current asset information of operations above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

During the year ended 31 December 2018, revenue generated from one single customer from USA lighting segment amounting to approximately RMB99,798,000 accounted for over 10% of the Group's revenue.

During the year ended 31 December 2017, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

5. REVENUE, OTHER INCOME, GAINS AND LOSSES

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	673,922	–
Sale of lighting products	–	629,307
Provision of advisory and management services	–	33,459
Provision of agency services	–	2,958
Revenue from other sources		
Interest revenue	19,776	–
	693,698	665,724

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	PRC lighting RMB'000	USA lighting RMB'000	Securities RMB'000	Total RMB'000
Type of goods or services				
Sale of lighting products	207,405	451,553	–	658,958
Advisory and management services	–	–	11,762	11,762
Agency services	–	–	3,202	3,202
Total revenue from contracts with customers	207,405	451,553	14,964	673,922
Geographic markets				
North America	88,803	451,553	–	540,356
Europe	53,519	–	–	53,519
PRC	25,624	–	–	25,624
Asia (excluding PRC)	39,434	–	14,964	54,398
Other countries	25	–	–	25
Total revenue from contracts with customers	207,405	451,553	14,964	673,922
Timing of revenue recognition				
Goods transferred and services rendered at a point in time	207,405	451,553	3,202	662,160
Services rendered over time	–	–	11,762	11,762
Total revenue from contracts with customers	207,405	451,553	14,964	673,922

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

5. REVENUE, OTHER INCOME, GAINS AND LOSSES (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	PRC lighting *RMB'000*	USA lighting *RMB'000*	Securities *RMB'000*	Total *RMB'000*
Revenue from contracts with customers				
External customers	207,405	451,553	14,964	673,922
Intersegment sales	18,330	–	–	18,330
	225,735	451,553	14,964	692,252
Intersegment adjustments and eliminations	(18,330)	–	–	(18,330)
Total revenue from contracts with customers	207,405	451,553	14,964	673,922

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of lighting products	11,866

For sale of lighting products, the performance obligations is expected due within 1 year and an estimate of the transaction price would not be included any estimated amounts of variable consideration that are constrained.

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of lighting products
The performance obligation is satisfied upon delivery of the lighting products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Advisory and asset management services
The performance obligation is satisfied upon the services are rendered. Advisory and asset management service contracts are for periods of one year or less, or are billed based on the monthly basis.

Agency services
The performance obligation is satisfied upon the transactions are completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

5. REVENUE, OTHER INCOME, GAINS AND LOSSES (CONTINUED)

	Notes	2018 *RMB'000*	2017 *RMB'000*
Other income			
Bank interest income		2,950	3,383
Dividend income from available-for-sale investments		–	21,058
Dividend income from financial assets at FVTPL		594	–
Government grants*		235,404	5,515
Gross rental income		5,745	4,191
Others		3,360	1,711
		248,053	35,858
Gains and losses, net			
Fair value losses on investments properties	14	(7,772)	(500)
(Loss)/gain on disposal of items of property, plant and equipment		(43,101)	496
Fair value gains of financial assets at FVTPL		3,874	11,614
Impairment of available-for-sale investments		–	(315)
Foreign exchange gains/(losses), net		27,570	(16,097)
(Loss)/gain on disposal/derecognition of subsidiaries	34	(3,047)	110,649
Others		26	895
		(22,450)	106,742
		225,603	142,600

* There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		489,568	457,634
Depreciation	13	19,855	19,425
Research and development costs:			
Deferred expenditure amortised	17	3,329	2,419
Amortisation of land lease payments	15	1,634	804
Amortisation of other intangible assets	17	3,660	2,710
Minimum lease payments under operating leases		10,051	9,707
Auditor's remuneration		2,450	2,310
Employee benefit expense (including directors' and chief executive's remuneration (note 8))			
Wages and salaries		119,553	77,846
Equity-settled share option expenses		428	1,601
Pension scheme contributions		6,726	3,138
		126,707	82,585
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		119	69
Impairment losses on financial assets, net:			
Trade and bills receivables	20	4,140	1,368
Other receivables	21	(1,525)	–
Loan receivables	22	653	–
		3,268	1,368
Write-down of inventories to net realisable value		9,807	6,462
Loss on written off of intangible assets		217	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Interest on bank loans	6,620	4,658
Interest on a loan from an intermediate holding company	6,845	–
Interest on a loan from the ultimate holding company	1,409	–
	14,874	4,658

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Fees	829	624
Other emoluments:		
Salaries, allowances and benefits in kind	3,026	1,320
Performance related bonuses	–	–
Equity-settled share option expense	59	151
Pension scheme contributions	15	–
	3,929	2,095

No director was granted share options during the year ended 31 December 2018. During the year ended 31 December 2017, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company and a subsidiary of the Company, further details of which are set out in note 31 to the consolidated financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 RMB'000	2017 RMB'000
Mr. Fan Ren Da, Anthony	205	208
Mr. Liu Tian Min	205	208
Ms. Li Ming Qi	205	208
	615	624

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Executive director and the chief executive:					
Mr. Seah Han Leong	214	1,913	59	–	2,186
Executive director:					
Mr. Daniel P.W. Li (appointed on 16 May 2018)	–	1,113	–	15	1,128
Non-executive directors:					
Mr. Huang Yu	–	–	–	–	–
Mr. Liu Wei Dong	–	–	–	–	–
Mr. Wang Liang Hai	–	–	–	–	–
	214	3,026	59	15	3,314
2017					
Executive director and the chief executive:					
Mr. Seah Han Leong	–	1,320	151	–	1,471
Non-executive directors:					
Mr. Huang Yu	–	–	–	–	–
Mr. Liu Wei Dong	–	–	–	–	–
Mr. Wang Liang Hai	–	–	–	–	–
	–	1,320	151	–	1,471

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included two (2017: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2017: four) highest paid employees who are non-director of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	1,881	2,338
Performance related bonuses	–	–
Equity-settled share option expenses	35	229
Pension scheme contributions	2	7
	1,918	2,574

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
Nil to HK$1,000,000	3	4

During the year and in prior years, no share options were granted to a non-director and non-chief executive highest paid employee in respect of their services to the Group.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. For the Group's subsidiaries established in the USA, income tax is calculated at the rate of 24.5% (2017: 21.0%). For the Group's subsidiary established in Vietnam, income tax is calculated at the rate of 20.0% (2017: 20.0%). Tax on profits assessable in PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2017: 25.0%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2018 RMB'000	2017 RMB'000
Current – Hong Kong		
Charge for the year	–	42
Current – Elsewhere		
Charge for the year	3,917	3,159
Underprovision in prior years	299	–
Deferred tax (note 29)	(4,779)	2,637
Total tax (credit)/charge for the year	(563)	5,838

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Profit before tax	**145,374**	126,319
Tax at the statutory/applicable rates of different jurisdictions	**36,246**	10,215
Income not subject to tax	**(65,972)**	(8,461)
Expenses not deductible for tax	**14,494**	1,142
Tax losses utilised from previous periods	**(9,314)**	(7,825)
Tax losses not recognised	**23,684**	10,767
Adjustment in respect of current tax of previous periods	**299**	–
Tax (credit)/charge at the Group's effective rate	**(563)**	5,838

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 year of assessment 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.

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.

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Year ended 31 December 2018

10. INCOME TAX (CONTINUED)

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

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, under prepayments, other receivables and other assets in note 21 to the consolidated statement of financial position as at 31 December 2017. As at 31 December 2018, 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.

11. DIVIDENDS

The directors of the Company did not recommend the payment of a dividend for the years ended 31 December 2017 and 2018.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,095,470,343 (2017: 2,103,278,114) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the impact of the share option outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

	2018 *RMB'000*	2017 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**145,792**	120,375

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,095,470,343	2,103,278,114

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Moulds RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	456,924	285,445	257,706	67,584	13,087	101,856	1,182,602
Accumulated depreciation	(373,227)	(275,863)	(235,922)	(59,920)	(9,151)	(98,125)	(1,052,208)
Net carrying amount	83,697	9,582	21,784	7,664	3,936	3,731	130,394
At 1 January 2018, net of accumulated depreciation	83,697	9,582	21,784	7,664	3,936	3,731	130,394
Additions	11,673	1,120	1,025	5,002	1,928	237	20,985
Disposals	(42,302)	(1,597)	(3,011)	(184)	(2,042)	(1,235)	(50,371)
Depreciation provided during the year	(5,553)	(3,068)	(3,309)	(5,478)	(1,334)	(1,113)	(19,855)
Exchange realignment	1,526	168	247	280	74	2	2,297
At 31 December 2018, net of accumulated depreciation	49,041	6,205	16,736	7,284	2,562	1,622	83,450
At 31 December 2018:							
Cost	141,636	72,886	166,780	45,348	13,164	62,780	502,594
Accumulated depreciation	(92,595)	(66,681)	(150,044)	(38,064)	(10,602)	(61,158)	(419,144)
Net carrying amount	49,041	6,205	16,736	7,284	2,562	1,622	83,450

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Moulds *RMB'000*	Total *RMB'000*
31 December 2017							
At 1 January 2017:							
Cost	474,132	282,483	358,477	67,971	13,957	118,753	1,315,773
Accumulated depreciation	(372,165)	(274,685)	(335,422)	(58,764)	(9,441)	(114,083)	(1,164,560)
Net carrying amount	101,967	7,798	23,055	9,207	4,516	4,670	151,213
At 1 January 2017, net of accumulated depreciation	101,967	7,798	23,055	9,207	4,516	4,670	151,213
Additions	–	5,122	2,741	6,112	111	359	14,445
Disposals	(9,268)	(170)	(281)	(3,056)	21	(149)	(12,903)
Depreciation provided during the year	(6,862)	(2,988)	(3,643)	(4,290)	(499)	(1,143)	(19,425)
Exchange realignment	(2,140)	(180)	(88)	(309)	(213)	(6)	(2,936)
At 31 December 2017, net of accumulated depreciation	83,697	9,582	21,784	7,664	3,936	3,731	130,394
At 31 December 2017:							
Cost	456,924	285,445	257,706	67,584	13,087	101,856	1,182,602
Accumulated depreciation	(373,227)	(275,863)	(235,922)	(59,920)	(9,151)	(98,125)	(1,052,208)
Net carrying amount	83,697	9,582	21,784	7,664	3,936	3,731	130,394

14. INVESTMENT PROPERTIES

	Completed commercial properties *RMB'000*	Land for development of commercial properties *RMB'000*	Total *RMB'000*
Carrying amount at 1 January 2017	14,700	–	14,700
Net loss from a fair value adjustment recognised in profit or loss	(500)	–	(500)
Carrying amount at 31 December 2017 and 1 January 2018	14,200	–	14,200
Transfer from prepaid land lease (note 15)	–	174,380	174,380
Additions	–	592,157	592,157
Net loss from a fair value adjustment recognised in profit or loss	–	(7,772)	(7,772)
Carrying amount at 31 December 2018	14,200	758,765	772,965

The Group's investment properties consist of five (2017: four) commercial properties in the PRC. The Group's investment properties were revalued on 31 December 2018 based on valuations performed by Roma Appraisals Limited and Jiangmen Zhangjun Land Real Estate Appraisal Co. Ltd., independent professionally qualified valuers, at RMB772,965,000 (2017: RMB14,200,000).

The investment properties, except for the land for development of commercial properties, are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the consolidated financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Recurring fair value measurement for:				
Commercial properties	–	–	772,965	772,965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (continued)

The following table illustrates the fair value measurement hierarchy of the Group's investment properties: (continued)

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Recurring fair value measurement for:				
Commercial properties	–	–	14,200	14,200

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	RMB'000
Carrying amount at 1 January 2017	14,700
Net loss from a fair value adjustment recognised in profit or loss	(500)
Carrying amount at 31 December 2017 and 1 January 2018	14,200
Transfer from prepaid land lease (note 15)	174,380
Additions	592,157
Net loss from a fair value adjustment recognised in profit or loss	(7,772)
Carrying amount at 31 December 2018	772,965

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average 2018	2017
Completed commercial properties	Direct comparison approach	Prevailing market price (per sq.m.)	**RMB67,787**	RMB67,787
Land for development of commercial properties	Residual approach	Prevailing market price (per sq.m.)	**RMB1,770 to RMB3,835**	–
		Construction cost (per sq.m.)	**RMB1,509 to RMB1,612**	–
		Developer's profit	**30%**	–

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Year ended 31 December 2018

14. INVESTMENT PROPERTIES (CONTINUED)

Direct comparison approach

Fair value of investment properties is generally derived using the direct comparison method.

The valuation was arrived at by adopting the direct comparison approach with reference to the recent transactions of similar properties under the prevailing property market conditions. A significant increase (decrease) in the prevailing market price in isolation would result in a significant increase (decrease) in the fair value of the investment properties.

Residual approach

Residual method of valuation which is commonly used in valuing development sites by establishing the market value of the properties on an "as-if" completed basis with appropriate deduction on construction costs, professional fees, contingency, marketing and legal cost, developer's profits and interest payments to be incurred.

A significant increase (decrease) in the prevailing market price in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the developer's profit in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the construction costs in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

15. PREPAID LAND LEASE PAYMENTS

	Note	2018 *RMB'000*	2017 *RMB'000*
Carrying amount at beginning of the year		**30,469**	31,863
Addition		**29,468**	–
Revaluation upon transfer to investment properties		**163,207**	–
Transfer to investment properties	14	**(174,380)**	–
Recognised during the year		**(1,634)**	(804)
Exchange realignment		**272**	(590)
Carrying amount at end of the year		**47,402**	30,469
Current portion		**(1,081)**	–
Non-current portion		**46,321**	30,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. GOODWILL

	RMB'000
At 1 January 2017:	
Cost	8,663
Accumulated impairment	–
Net Carrying amount	8,663
Cost at 1 January 2017, net of accumulated impairment	8,663
Impairment during the year	–
Acquisition of a subsidiary (note 33)	121,948
Exchange realignment	(7,157)
At 31 December 2017	123,454
At 31 December 2017:	
Cost	123,454
Accumulated impairment	–
Net carrying amount	123,454
Cost at 1 January 2018, net of accumulated impairment	123,454
Exchange realignment	5,967
Cost and net carrying amount at 31 December 2018	129,421
At 31 December 2018:	
Cost	129,421
Accumulated impairment	–
Net carrying amount	129,421

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- USA lighting cash-generating unit; and
- Securities cash-generating unit.

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

USA lighting cash-generating unit

The recoverable amount of the USA lighting cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.9% (2017: 11.2%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 3% (2017: 3%)

Securities cash-generating unit

The recoverable amount of the Securities cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11.6% (2017: 25.0%). The growth rate used to extrapolate the cash flows of the financial services beyond the five-year period is 3% (2017: 2%)

	2018 *RMB'000*	2017 *RMB'000*
USA lighting cash-generating unit	8,571	8,161
Securities cash-generating unit	120,850	115,293
Carrying amount of goodwill	129,421	123,454

Assumptions were used in the value in use calculation of the lighting products and securities cash-generating units for 31 December 2018 and 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Growth rates – The growth rates are determined with reference to the growth rate for the relevant units, adjusted for relevant businesses and market development, and economic condition.

The values assigned to the key assumptions on market development of USA lighting and securities industries, budgeted gross margins, discount rates and growth rate are consistent with external information sources.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

17. OTHER INTANGIBLE ASSETS

	Patent RMB'000	Securities licences RMB'000	Software RMB'000	Deferred development cost RMB'000	Total RMB'000
31 December 2018					
At 1 January 2018:					
Cost	49,511	9,791	1,249	21,300	81,851
Accumulated depreciation	(41,546)	(189)	(1,180)	(3,532)	(46,447)
Net carrying amount	7,965	9,602	69	17,768	35,404
Cost at 1 January 2018, net of accumulated amortisation	7,965	9,602	69	17,768	35,404
Additions	–	–	6,100	6,419	12,519
Amortisation provided during the year	(1,187)	(1,183)	(1,290)	(3,329)	(6,989)
Disposal	–	–	(217)	–	(217)
Exchange realignment	3,025	431	310	–	3,766
At 31 December 2018	9,803	8,850	4,972	20,858	44,483
At 31 December 2018:					
Cost	52,951	10,953	6,377	27,720	98,001
Accumulated depreciation	(43,148)	(2,103)	(1,405)	(6,862)	(53,518)
Net carrying amount	9,803	8,850	4,972	20,858	44,483

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17. OTHER INTANGIBLE ASSETS (CONTINUED)

	Patent *RMB'000*	Securities licences *RMB'000*	Software *RMB'000*	Deferred development cost *RMB'000*	Total *RMB'000*
31 December 2017					
At 1 January 2017:					
Cost	55,775	–	1,186	16,259	73,220
Accumulated depreciation	(41,308)	–	(959)	(1,113)	(43,380)
Net carrying amount	14,467	–	227	15,146	29,840
Cost at 1 January 2017, net of accumulated amortisation	14,467	–	227	15,146	29,840
Additions	–	418	124	5,041	5,583
Addition of a subsidiary	–	10,610	–	–	10,610
Amortisation provided during the year	(1,349)	(1,061)	(300)	(2,419)	(5,129)
Exchange realignment	(5,153)	(365)	18	–	(5,500)
At 31 December 2017	7,965	9,602	69	17,768	35,404
At 31 December 2017:					
Cost	49,511	9,791	1,249	21,300	81,851
Accumulated depreciation	(41,546)	(189)	(1,180)	(3,532)	(46,447)
Net carrying amount	7,965	9,602	69	17,768	35,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2018 *RMB'000*	2017 *RMB'000*
Equity investments designated at FVTOCI			
Unlisted equity investments, at fair value	(iii)	1,224	–
Current portion		(600)	–
Non-current portion		624	–
Available-for-sale investments			
Unlisted investments, at fair value	(i)	–	321,079
Unlisted equity investments, at amortised cost	(ii)	–	3,324
		–	324,403
Current portion		–	(321,079)
Non-current portion		–	3,324

The above equity investments were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature.

(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 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 debts, 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 RMB321,079,000 that is held for short-term purposes.

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Year ended 31 December 2018

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

(ii) Before 1 January 2018, unlisted equity investments of RMB3,324,000 were measured at cost less accumulated impairment of RMB1,211,000 at the end of the reporting period because the range of reasonable fair value estimates was 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.

(iii) During the year ended 31 December 2018, no (2017: RMB21,058,000) dividend was received from the unlisted equity investments.

During the year ended 31 December 2017, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive loss amounted to RMB13,285,000, of which RMB13,285,000 was reclassified from other comprehensive income to the statement of profit or loss for the year ended 31 December 2017.

19. INVENTORIES

	2018 *RMB'000*	2017 *RMB'000*
Raw materials	52,819	18,421
Work in progress	46,018	35,779
Finished goods	99,368	123,195
	198,205	177,395

At 31 December 2018, the Group's inventories with a carrying amount of RMB85,666,000 (2017: RMB20,057,000) were pledged as security for the Group's bank loans, as further detailed in note 27 to the consolidated financial statements.

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Year ended 31 December 2018

20. TRADE AND BILLS RECEIVABLES

	2018 *RMB'000*	2017 *RMB'000*
Trade receivables	160,226	173,229
Bills receivables	4,269	10,190
Less: Impairment loss on trade receivables	(8,636)	(46,312)
Less: Impairment loss on bills receivables	(15)	–
	155,844	137,107

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to six months for major customers.

PRC and USA lighting segments

Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Securities segment

Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. At the end of the reporting period, the Group has certain concentration of credit risk as 81% and 97% (2017: 74% and 100%) of the total gross trade receivables was due from the Group's largest customer and the five largest customers, respectively. The Group does not hold collateral over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's related parties of RMB4,612,000 (2017: RMB4,667,000) which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2018, the Group's receivables with a carrying amount of RMB49,736,000 (2017: RMB33,336,000) were pledged as security for the Group's bank loans, as further detailed in note 27 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018			2017		
	Lighting	Securities	Total	Lighting	Securities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	48,934	6,381	55,315	62,833	20,642	83,475
1 to 2 months	18,370	276	18,646	3,420	645	4,065
2 to 3 months	10,859	185	11,044	5,790	671	6,461
3 to 6 months	25,330	217	25,547	17,142	1,987	19,129
Over 6 months	27,949	17,343	45,292	20,879	3,098	23,977
	131,442	24,402	155,844	110,064	27,043	137,107

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018			2017		
	Lighting	Securities	Total	Lighting	Securities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year	46,312	–	46,312	47,450	–	47,450
Effect of adoption of HKFRS 9	(803)	586	(217)	–	–	–
At beginning of the year (restated)	45,509	586	46,095	47,450	–	47,450
Impairment losses (note 6)	1,233	2,907	4,140	1,368	–	1,368
Amount written off as uncollectable	(41,584)	–	(41,584)	(2,506)	–	(2,506)
At end of the year	5,158	3,493	8,651	46,312	–	46,312

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Year ended 31 December 2018

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

Impairment under HKFRS 9 for the year ended 31 December 2018

PRC and USA lighting segments

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by industry credit benchmark). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Securities segment

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by industry credit benchmark). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade and bills receivables using a provision matrix:

As at 31 December 2018

			Past due					
PRC and USA Lighting segments	Current	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0.35%	0.35%	1.53%	3.68%	16.6%	22.2%	25.2%	
Gross carrying amount (RMB'000)	67,395	26,134	15,813	8,266	4,705	3,226	11,061	136,600
Expected credit losses (RMB'000)	234	91	241	305	781	716	2,790	5,158

			Past due					
Securities segment	Current	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	1.43%	1.43%	3.98%	6.19%	16.6%	22.2%	25.2%	
Gross carrying amount (RMB'000)	7,195	–	15	511	20,016	158	–	27,895
Expected credit losses (RMB'000)	103	–	1	32	3,323	34	–	3,493

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for collectively impaired trade receivables of RMB46,312,000 with a carrying amount before provision of RMB183,419,000.

The impaired trade receivables as at 31 December 2017 related to customers that were according to group policy which the receivables were past due.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *RMB'000*
Neither past due nor impaired	113,129
Less than 1 month past due	2,512
1 to 3 months past due	7,537
3 months to 1 year past due	5,714
1 year to 2 years	2,303
2 years to 3 years	5,912
	137,107

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 *RMB'000*	2017 *RMB'000*
Prepayments	94,617	13,916
Deposits and other receivables	12,607	21,210
Value added tax recoverable	47,807	39,098
Tax reserve certificates	26,724	29,633
	181,755	103,857
Less: Impairment allowance	(782)	(2,363)
	180,973	101,494
Current portion	(95,290)	(101,494)
	85,683	–

The movements in the loss allowance for impairment of other receivables are as follows:

	2018 *RMB'000*	2017 *RMB'000*
At beginning of the year	2,363	2,363
Effect of adoption of HKFRS 9	(56)	–
At beginning of the year (restated)	2,307	2,363
Impairment losses (note 6)	(1,525)	–
At end of year	782	2,363

Impairment under HKFRS 9 for the year ended 31 December 2018

During the year ended 31 December 2018, RMB1,525,000 was debited as a reversal of allowance for expected credit losses on other receivables. The provision rates are based on individual credit rating. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's other receivables using a provision matrix:

As at 31 December 2018	
Expected credit loss rate	6.2%
	RMB'000
Gross carrying amount	12,607
Expected credit losses	782

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of other receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for collectively impaired other receivables of RMB2,363,000 with a carrying amount before provision of RMB103,857,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

22. LOAN RECEIVABLES

	2018 RMB'000	2017 RMB'000
Loan receivables	301,575	–
Less: Impairment allowance	(653)	–
	300,922	–

The movement in the loss allowance for impairment of loan receivables is as follows:

	2018 RMB'000	2017 RMB'000
At beginning of the year	–	–
Impairment losses (note 6)	653	–
At end of year	653	–

Loan receivables represented the money lent to customers by Tongfang Finance Limited, a subsidiary of the Group which is holding Money Lender Licensees. The balance are classified as financial assets at amortised cost. Management performs continuous assessment on the recoverability of loan receivables. The loan receivables bear interest rate ranged from 8% p.a. to 12% p.a. and repayable within one year. As at 31 December 2018, the Group's loan receivables amounted to HK$301,575,000 (2017: Nil) were secured by certain properties and listed securities. The market values of the collateral held by the Group are not readily determinable or can be reasonably established and verified.

Management has performed credit risk assessment by performing background search on the borrowers, financial analysis on the companies for which the borrowers has pledged the equity shares and property search on pledged properties.

Impairment under HKFRS 9 for the year ended 31 December 2018

During the year ended 31 December 2018, RMB653,000 was recognised for expected credit losses on loan receivables. The provision rates are based on individual credit rating. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

An ageing analysis of the loan receivables as at the end of the reporting period, based on the maturity date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	300,922	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2018 RMB'000	2017 RMB'000
Current			
Listed equity investments, at fair value	(i)	85,221	21,571
Other unlisted investments, at fair value	(ii)	109,112	–
		194,333	21,571
Non-current			
Unlisted investment, at fair value	(iii)	130,989	111,166
		325,322	132,737

(i) The above equity investments at 31 December 2018 were classified as financial assets at FVTPL as they were held for trading.

(ii) At 1 January 2018, the Fund was reclassified as financial assets at FVTPL from available-for-sale (note 18) with a fair value of HK$384,107,000 (equivalent to approximately RMB321,079,000) that are held for short-term purposes.

On 9 February 2018, the Investment Manager has redeemed certain interest in the Fund in the amount of HK$370,000,000 (equivalent to approximately RMB316,757,000), for and on behalf of Tongfang Securities pursuant to its discretionary authority under the discretionary client agreement.

Except for the Fund, the above unlisted investments included various investing funds issued by Burwill Holdings Limited and 8.125% Senior Secured Notes issued by Jiayuan International Group Limited. The convertible bond and the funds were mandatorily classified as financial assets at FVTPL as their contractual cash flows are not solely payments of principal and interest.

(iii) On 29 October 2014, Tongfang Science Park, a wholly-owned subsidiary of the Company, entered into an overseas asset management plan contract (the "Contract") with China Asset Management Co., Ltd. and China Construction Bank Corporation, pursuant to which Tongfang Science Park has agreed to participate in the overseas asset management plan operated by China Asset Management Co., Ltd. (the "Fund") by depositing the investment amount of RMB105,500,000 (the "Investment Amount") in a designated account maintained with China Construction Bank Corporation. Pursuant to the Contract, 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. It was mandatorily classified as financial assets at FVTPL as their contractual cash flows are not solely payments of principal and interest.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	2018 RMB'000	2017 RMB'000
Cash and bank balances		**233,875**	526,285
Time deposits		**34,307**	13,322
		268,182	539,607
Less: Pledged time deposits:			
Pledged for long term bank loans	27	**(34,307)**	(13,322)
Cash held on behalf of clients		**(4,056)**	(90,321)
Cash and cash equivalents		**229,819**	435,964

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB26,052,000 (2017: RMB197,886,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

25. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**97,742**	55,771
Bills payables	**–**	24,669
Accounts payables to securities clients	**4,056**	90,321
	101,798	170,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

25. TRADE AND BILLS PAYABLES (CONTINUED)

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018			2017		
	Accounts payables to securities clients RMB'000	Trade and bills payables RMB'000	Total RMB'000	Accounts payables to securities clients RMB'000	Trade and bills payables RMB'000	Total RMB'000
Within 1 month	4,056	53,275	57,331	90,321	52,475	142,796
1 to 2 months	–	16,797	16,797	–	4,933	4,933
2 to 3 months	–	1,862	1,862	–	2,963	2,963
3 to 6 months	–	2,272	2,272	–	53	53
6 months to 1 year	–	3,469	3,469	–	3,469	3,469
Over 1 year	–	20,067	20,067	–	16,547	16,547
	4,056	97,742	101,798	90,321	80,440	170,761

The trade payables are non-interest-bearing and are normally settled within terms of 90 days.

26. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Other payables	(a)	48,466	51,297
Receipts in advance		–	11,866
Contract liabilities	(b)	15,727	–
		64,193	63,163

Notes:

(a) Other payables are non-interest-bearing and have an average term of three months.

(b) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Sale of goods	15,727	11,866
Total contract liabilities	15,727	11,866

Contract liabilities include short-term advances received from customers to deliver lighting products. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to uncompleted contracts at the end of the year.

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Year ended 31 December 2018

27. INTEREST-BEARING BANK BORROWINGS

	31 December 2018			31 December 2017		
	Effective interest rate %	Maturity	RMB'000	Effective interest rate %	Maturity	RMB'000
Bank loans – unsecured	3.45 – 4.75	2019	156,975	–	–	–
Bank loan – secured	3.50	2019	10,295	–	–	–
Bank loans – secured	LIBOR	2019	60,053	LIBOR	2018	70,243
			227,323			70,243

The maturity of the above bank borrowings is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Analysed into:		
Bank loans:		
Within one year or on demand	227,323	70,243

Notes:

(a) Except for the bank borrowings of RMB60,053,000 (2017: RMB70,243,000) which are denominated in USD at LIBOR, all bank borrowings as set out above are denominated in RMB and bear interest at fixed interest rates.

(b) The Group's bank borrowings are secured by:

(i) charges over certain of the Group's inventories totalling RMB85,666,000 (2017: RMB20,057,000) (note 19);

(ii) charges over certain of the Group's trade receivables totalling RMB49,736,000 (2017: RMB33,336,000) (note 20); and

(iii) a time deposit of RMB34,307,000 (2017: RMB13,322,000) as at 31 December 2018 (note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

28. PROVISION

	RMB'000
At 1 January 2018	903
Additional provision	8,643
At 31 December 2018	9,546

During the year ended 31 December 2018, Tongfang Science Park, a subsidiary of the Company, has received a notice served by the People's Court in PRC, which was initiated by a lessee who entered into rental agreement with the Group, to demand remedies for the loss arised from early termination of rental agreement. In the opinion of the directors of the Company, the possibility of an outflow of economic resources is possible and a provision of RMB8,384,000 was made for the claim in the consolidated financial statements for the year ended 31 December 2018.

The claim is subject to legal arbitration and is expected to be finalised in late 2019. At the end of the reporting period, the provision was reassessed and as a result thereof, it has been increased to RMB9,546,000.

29. DEFERRED TAX

	Taiwan withholding tax on un-distributed earnings *RMB'000*	**Fair value adjustments on intangible assets** *RMB'000*	**Depreciation allowance in excess of related depreciation** *RMB'000*	**Fair value adjustments on investments properties** *RMB'000*	**Inventory provision** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
At 1 January 2017	(2,950)	(662)	4,754	–	913	2,058	4,113
Acquisition of a subsidiary	–	(1,751)	–	–	–	–	(1,751)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	–	576	(2,377)	–	22	(858)	(2,637)
Exchange differences	193	138	(205)	–	(54)	(77)	(5)
At 31 December 2017 and at 1 January 2018	(2,757)	(1,699)	2,172	–	881	1,123	(280)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	–	321	(237)	2,331	1,385	979	4,779
Deferred tax charged to the statement of other comprehensive income	–	–	–	(48,962)	–	–	(48,962)
Exchange differences	(133)	(202)	103	–	79	81	(72)
At 31 December 2018	(2,890)	(1,580)	2,038	(46,631)	2,345	2,183	(44,535)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. DEFERRED TAX (CONTINUED)

Deferred tax assets and liabilities have not been offset for the purpose of presentation in the consolidated statement of financial position as they relate to different tax authorities. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2018 *RMB'000*	2017 *RMB'000*
Deferred tax assets	7,005	6,179
Deferred tax liabilities	(51,540)	(6,459)
	(44,535)	(280)

The Group has tax losses arising in Hong Kong of RMB270,480,000 (2017: RMB215,251,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in PRC of RMB275,342,000 (2017: RMB273,662,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in a subsidiary that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. As 31 December 2018 and 2017, no unrecognised deferred tax for the withholding taxes as there was no such earnings for its subsidiaries to distribute in the foreseeable future.

As 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of RMB63,189,000 (2017: RMB53,691,000) that are subject to withholding taxes of subsidiaries of the Group established in the USA. In the opinion of directors of the Company, the Group's fund will be retained in the USA for the expansion of the Group's operation, so it is not probable that its subsidiaries will distribute such earnings in the foreseeable future.

Pursuant to the Taiwan Corporate Income Tax Law, a 5% withholding tax on undistributed earnings tax rate and 21% is levied on dividends declared to a non-resident recipient from the foreign investment enterprises established in Taiwan. The requirement is effective from 1 January 2018.

There are no income tax consequences attaching to the payment of dividend by the subsidiary to its shareholders.

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Year ended 31 December 2018

30. SHARE CAPITAL

	2018 *RMB'000*	2017 *RMB'000*
Authorised: 5,000,000,000 (2017: 5,000,000,000) ordinary shares of RMB0.10 (2017: RMB0.10) each	500,000	500,000
Issued and fully paid: 2,094,505,417 (2017: 2,109,163,417) ordinary shares of RMB0.10 (2017: RMB0.10) each	185,676	186,912

A summary of movements in the Company's share capital is as follows:

	Notes	**Number of shares in issue**	**Share capital** *RMB'000*
At 1 January 2017		1,938,319,694	171,808
Issuance of shares on 20 January 2017	(a)	177,227,723	15,670
Shares cancelled	(b)	(6,384,000)	(566)
At 31 December 2017 and 1 January 2018		2,109,163,417	186,912
Shares cancelled	(b)	(14,658,000)	(1,236)
At 31 December 2018		2,094,505,417	185,676

Notes:

(a) Pursuant to an ordinary resolution passed on 20 January 2017, 177,227,723 ordinary shares were issued as a consideration for the acquisition of Tongfang Securities.

(b) The Company purchased 5,714,000 (2017: 15,328,000) of its shares on the Stock Exchange of a total consideration of RMB3,664,000 (2017: RMB11,304,000) which was paid wholly out of retained profits. The purchased shares of 14,658,000 (2017: 6,384,000) were cancelled during the year.

31. SHARE OPTION SCHEME

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.

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**1.31**	**22,300**	1.31	23,600
Forfeited during the year	**1.31**	**(1,100)**	1.31	(1,300)
At 31 December	**1.31**	**21,200**	1.31	22,300

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Year ended 31 December 2018

31. SHARE OPTION SCHEME (CONTINUED)

Share option scheme of the Company (continued)

No share options was recognised during the year ended 31 December 2018 (2017: RMB1,100,000).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
10,600	**1.31**	**15-05-2016 to 14-05-2020**
10,600	**1.31**	**15-05-2017 to 14-05-2020**
21,200		

2017

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
11,150	1.31	15-05-2016 to 14-05-2020
11,150	1.31	15-05-2017 to 14-05-2020
22,300		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share option was granted during the years ended 31 December 2018 and 2017.

At the end of the reporting period, the Company had 21,200,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 21,200,000 additional ordinary shares of the Company and additional share capital of RMB27,772,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 21,200,000 share options outstanding under the Scheme, which represented approximately 1.0% of the Company's shares in issue as at that date.

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31. SHARE OPTION SCHEME (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 ("Tivoli"), the wholly-owned subsidiary of ALI. 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 ALI.

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 ALI's shares on the date of grant, (ii) the average closing price of ALI's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the ALI's share.

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price *US$ per share*	Number of options	Weighted average exercise price *US$ per share*	Number of options
At 1 January	369	2,725	330	2,231
Granted during the year	–	–	405	1,401
Forfeited during the year	368	(290)	330	(54)
Exercised during the year	–	–	330	(853)
At 31 December	369	2,435	369	2,725

No share option was exercised during the year ended 31 December 2018.

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31. SHARE OPTION SCHEME (CONTINUED)

Share option scheme of a subsidiary of the Company (continued)

During the year ended 31 December 2017, the weighted average share price at the date of exercise for share options exercised during the year was US$330 per share. The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of options	Exercise price* US$ per share	Exercise period
354	330	30-06-2016 to 30-06-2025
355	330	30-06-2017 to 30-06-2025
471	330	30-06-2018 to 30-06-2025
376	405	27-04-2018 to 27-04-2027
376	405	27-04-2019 to 24-04-2027
503	405	27-04-2020 to 27-04-2027
2,435		

2017

Number of options	Exercise price* US$ per share	Exercise period
397	330	30-06-2016 to 30-06-2025
398	330	30-06-2017 to 30-06-2025
530	330	30-06-2018 to 30-06-2025
420	405	27-04-2018 to 27-04-2027
420	405	27-04-2019 to 24-04-2027
560	405	27-04-2020 to 27-04-2027
2,725		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share option was granted during the year ended 31 December 2018. The fair value of the share options granted during the year ended 31 December 2018 was RMB1,441 (2017: RMB1,028) each, of which the Group recognised a share option expense of RMB428,000 (2017: RMB501,000) during the year ended 31 December 2018.

32. RESERVES

The nature of the Group's reserves are described as below:

(a) The application of the share premium account of the Company is governed by the Company Law (Revised) of the Cayman Islands. Under the constitutional documents and Companies Law (Revised) of the Cayman Islands, the share premium is distributable as a dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business immediately after the proposed dividend is paid.

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

(c) 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.

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

(e) 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 31.

(f) 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 2.4.

(g) Fair value reserve comprises the cumulative net change in the fair value of equity investments designated at FVTOCI which will not be recycled to profit or loss in subsequent period under HKFRS 9 applicable from 1 January 2018, while the available-for-sale investments reserve represents reserve which may be reclassified to profit or loss in subsequent period under HKAS39 applicable before 1 January 2018 is dealt with in accordance with the accounting policies in note 2.4.

(h) 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.

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity on page 88 of the financial statements.

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Year ended 31 December 2018

33. BUSINESS COMBINATION

On 20 January 2017, the Group acquired a 100% interest in Tongfang Securities from an independent third parties. Tongfang Securities are engaged in provision of asset management, investment advisory services and securities trading. The purchase consideration for the acquisition was in the form of 177,227,723 new ordinary shares issued, and the fair value of the ordinary shares 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. For the year ended 31 December 2017, the fair values of the identifiable assets and liabilities of Tongfang Securities as at the date of acquisition were as follows:

	Note	**Fair value recognised on acquisition** *RMB'000*
Property, plant and equipment		3,016
Intangible assets		10,610
Cash and bank balances		40,768
Other current assets		28,734
Trade and other payables		(21,557)
Deferred tax liabilities		(1,751)
Total identifiable net assets at fair value		59,820
Goodwill on acquisition	16	121,948
Satisfied by new ordinary shares issued		181,768

The fair values of other current assets as at the date of acquisition amounted to RMB28,734,000. The gross contractual amount of other current assets was RMB28,734,000.

Included in the goodwill of RMB121,948,000 recognised above is a customer list, which is not recognised separately. Because the list is subject to a confidentiality agreement, it is not separable and therefore it does not meet the criteria for recognition as an intangible asset under HKAS 38 Intangible Assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	–
Cash and bank balances acquired	40,768
Net inflow of cash and cash equivalents included in cash flows from investing activities	40,768

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Year ended 31 December 2018

33. BUSINESS COMBINATION (CONTINUED)

Since the acquisition, Tongfang Securities contributed RMB36,417,000 to the Group's revenue and RMB35,420,000 to the consolidated profit for the year ended 31 December 2017. Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB666,370,000 and RMB119,148,000, respectively.

34. DISPOSAL/DERECOGNITION OF SUBSIDIARIES

On 31 October 2016, the Group had 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 had available for immediate sale in its present condition. The above transactions had been completed in February 2017, resulting in a gain of RMB110,649,000 which has mainly due to the appreciation of the land use rights owned by the Disposal Group and had 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.

During the year ended 31 December 2018, the Group deregistered four oversea subsidiaries, namely Shenzhen Mingli Video Technology Development Co., Ltd., Neo-Neon Investment UK Ltd., Evergreen Illumination B.V., and Neo-Neon-Europe Gmbh. These deregistration were completed during the year.

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Year ended 31 December 2018

34. DISPOSAL/DERECOGNITION OF SUBSIDIARIES (CONTINUED)

Details of the net assets/(liabilities) of the Group disposed of and their financial impacts are summarised below:

	Note	2018 RMB'000	2017 RMB'000
Net assets disposed of:			
Property, plant and equipment		182	66,129
Intangible assets		18	5,750
Other current assets		9,943	136,835
Other current liabilities		(831)	(67.695)
Non-controlling interests		(1,261)	–
		8,051	141,019
Exchange fluctuation reserve		(5,004)	–
		(3,047)	141,019
Gain on disposal of subsidiaries	5	–	110,649
Loss on derecognition of subsidiaries		(3,047)	–
		–	251,668
Satisfied by:			
Cash		–	251,668
Cash consideration		–	251,668
Cash and bank balances disposed of		–	(1,950)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries		–	249,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising in financing activities

	Bank loans *RMB'000*	Loan from the ultimate holding company *RMB'000*	Total *RMB'000*
As at 1 January 2017	110,967	–	110,967
Changes from financing cash flows	(35,648)	–	(35,648)
Foreign exchange movement	(5,076)	–	(5,076)
As at 31 December 2017 and 1 January 2018	70,243	–	70,243
Changes from financing cash flows	152,181	350,000	502,181
Foreign exchange movement	4,899	–	4,899
As at 31 December 2018	227,323	350,000	577,323

36. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 27 of the financial statements.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the consolidated financial statements) under operating lease arrangements with leases negotiated for terms ranging from one to eleven years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within one year	9,061	4,964
In the second to fifth years, inclusive	21,349	20,833
After five years	13,885	28,420
	44,295	54,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

37. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within one year	14,322	7,536
In the second to fifth years, inclusive	6,392	6,842
	20,714	14,378

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the end of the reporting period:

	2018 *RMB'000*	2017 *RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	4,414	4,569

39. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the year:

	Notes	2018 *RMB'000*	2017 *RMB'000*
Disposal of subsidiaries	(i)	–	251,668
Sales of goods to a controlling shareholder and its subsidiaries	(ii)	–	2,487
Interest paid to an intermediate holding company	(iii)	(6,845)	–
Interest paid to the ultimate holding company	(iv)	(1,409)	–

Notes:

(i) 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. to dispose all its 100% equity interests in three subsidiaries, namely Yangzhou Tongfang Semiconductors Co. Ltd, Shanghai Cuineng Photoelectricity Science and Technology Co., Ltd. and Tianjin Zhenmingli Photoelectricity Co., Ltd. for a consideration of RMB251,668,000 which was mutually agreed by both parties.

(ii) The sale of goods to a controlling shareholder and its subsidiaries were conducted in accordance with the terms and conditions mutually agreed by both parties.

(iii) The loan from Resuccess Investment Ltd., an intermediate holding company, was unsecured and interest-bearing at 6.0% per annum and was repaid in 2018.

(iv) The loan from Tsinghua Tongfang Co., Ltd., the ultimate holding company, was unsecured and interest-bearing at 4.95% per annum and repayable in 2020.

(b) Compensation of key management personnel of the Group

The Company's directors represented the Group's key management personnel and their emoluments are included in note 8 to the consolidated financial statements.

(c) Loan from the ultimate holding company

At 31 December 2018, the loan from Tsinghua Tongfang Co., Ltd. with an amount of RMB350,000,000 (2017: Nil) is unsecured, interest-bearing at 4.95% per annum and repayable in 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at FVTPL *RMB'000*	Equity investments at FVTOCI *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	–	155,844	155,844
Loan receivables	–	–	300,922	300,922
Financial assets included in prepayments, other receivables and other assets	–	–	12,607	12,607
Equity investments designated at FVTOCI	–	1,224	–	1,224
Financial assets at FVTPL	325,322	–	–	325,322
Pledged deposits	–	–	34,307	34,307
Cash held on behalf of clients	–	–	4,056	4,056
Cash and cash equivalents	–	–	229,819	229,819
	325,322	1,224	737,555	1,064,101

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	101,798
Financial liabilities included in other payables and accruals	48,466
Interest-bearing bank borrowings	227,323
Loan from the ultimate holding company	350,000
	727,587

40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2017

Financial assets

	Financial assets at FVTPL *RMB'000*	Available-for-sale investments *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	–	137,107	137,107
Financial assets included in prepayments, other receivables and other assets	–	–	21,210	21,210
Available-for-sale investments	–	324,403	–	324,403
Financial assets at FVTPL	132,737	–	–	132,737
Pledged deposits	–	–	13,322	13,322
Cash held on behalf of clients	–	–	90,321	90,321
Cash and cash equivalents	–	–	435,964	435,964
	132,737	324,403	697,924	1,155,064

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	170,761
Financial liabilities included in other payables and accruals	51,297
Interest-bearing bank borrowings	70,243
	292,301

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Year ended 31 December 2018

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Equity investments designated at FVTOCI	1,224	–	1,224	–
Available-for-sale investments	–	321,079	–	321,079
Financial assets at FVTPL	325,322	132,737	325,322	132,737
	326,546	453,816	326,546	453,816
Financial liabilities				
Interest-bearing bank borrowings	227,323	70,243	230,534	71,627
Loan from the ultimate holding company	350,000	–	384,650	–
	577,323	70,243	615,184	71,627

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments, except for a loan from the ultimate holding company which is repayable in 2020.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the executive directors and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted investments, which were classified as financial assets at FVTPL have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors of the Company to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ('EBITDA") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors of the Company believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of convertible bond are measured using valuation techniques by present value calculations. For the rest of the financial assets at FVTPL their fair values are derived from the net asset value per share of the investments or latest transaction prices. The directors of the Company believe that the estimated fair values which are recorded in the consolidated statement of financial position with net changes in fair value recognised in the statement of profit or loss in the year ended 31 December 2018 are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of other financial assets and financial liabilities carried at amortised cost approximate to their carrying amounts.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018 and 2017:

	Valuation technique	**Significant unobservable input**	**Range**	**Sensitivity of fair value to the input**
Unlisted investments (2017: Unlisted investments)	Valuation multiples	EV/EBITDA multiple of peers	2018: 13.7 (2017: 12.6)	1% (2017: 1%) increase/ decrease in the multiple would result in increase/ decrease in fair value by RMB1,530,000 (2017: RMB1,367,000)
Convertible bond (2017: Nil)	Hull-White model	Discount rate	2018: 13.3% (2017: Nil)	5% (2017: Nil) increase/ decrease in the discount rate would result in decrease/increase in fair value by RMB252,000 (2017: Nil)

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Equity investments designated at FVTOCI	–	–	1,224	1,224
Financial assets at FVTPL	85,221	35,408	204,693	325,322
	85,821	35,408	205,917	326,546

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Available-for-sale investments	–	321,079	–	321,079
Financial assets at FVTPL	21,571	–	111,166	132,737
	21,571	321,079	111,166	453,816

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 *RMB'000*	2017 *RMB'000*
Financial assets at FVTPL – unlisted:		
At 1 January	111,166	108,152
Total gains recognised in the statement of profit or loss included in other income	35,747	3,014
Additions	68,643	
Disposals	(10,980)	–
Exchange realignment	117	–
At 31 December	204,693	111,166

	2018 *RMB'000*	2017 *RMB'000*
Equity investments designated at FVTOCI/available-for-sale investments – unlisted:		
At 1 January	3,324	3,639
Effect of adoption of HKFRS 9	(1,412)	–
At 1 January (restated)	1,912	3,639
Total losses recognised in the statement of profit or loss	–	(315)
Total losses recognised in the statement of comprehensive income	(688)	–
At 31 December	1,224	3,324

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 31 December 2017. As at 31 December 2018, the Group's financial liabilities not measured at fair value but for which fair values were disclosed included interest-bearing bank borrowings and a loan from the ultimate holding company with fair values of RMB230,534,000 (2017: RMB71,627,000) and RMB384,650,000 (2017: Nil), respectively. The fair values of these financial liabilities disclosed were measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair values are observable, either directly or indirectly (Level 2).

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, a loan from the ultimate holding company, cash and cash equivalents and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as financial assets at FVTPL, equity investments designated at FVTOCI, trade and bills receivables, other receivables, trade and bills payables and other payables.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk, equity price risk and market risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances and debt obligations with a floating interest rate.

The interest rates and terms of repayment of interest-bearing bank borrowings are disclosed in note 27 to the consolidated financial statements. Other financial assets and liabilities of the Group do not have material interest rate risk. Interest-bearing bank borrowings, a loan from the ultimate holding company, cash and bank balances, and short-term deposits are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expenses are credited or charged to the statement of profit or loss as incurred.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on interest-bearing borrowings, a loan from the ultimate holding company and cash and cash equivalents) and Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *RMB'000*	**Increase/ (decrease) in equity*** *RMB'000*
2018			
RMB	**100**	**(3,440)**	**(3,440)**
RMB	**(100)**	**3,440**	**3,440**
US$	**100**	**289**	**289**
US$	**(100)**	**(289)**	**(289)**
2017			
RMB	100	1,979	1,979
RMB	(100)	(1,979)	(1,979)
US$	100	103	103
US$	(100)	(103)	(103)

* Excluding retained profits

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 26% (2017: 53%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, while approximately 26% (2017: 53%) of cost were denominated in the units' functional currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB exchange rate against US$ and HK$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in profit before tax** *RMB'000*
2018		
If RMB weakens against US$	**5**	**3,282**
If RMB strengthens against US$	**(5)**	**(3,282)**
If RMB weakens against HK$	**5**	**15,798**
If RMB strengthens against HK$	**(5)**	**(15,798)**
2017		
If RMB weakens against US$	5	9,402
If RMB strengthens against US$	(5)	(9,402)
If RMB weakens against HK$	5	4,542
If RMB strengthens against HK$	(5)	(4,542)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are closely monitored on an ongoing basis to minimise the Group's exposure to bad debts.

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Simplified approach *RMB'000*	Total *RMB'000*
Trade and bills receivables*	4,269	–	–	160,226	164,495
Financial assets included in prepayments, deposits, other receivables and other assets					
– Normal**	12,607	–	–	–	12,607
Cash held on behalf of securities clients					
– Not yet past due	4,056	–	–	–	4,056
Pledged deposits					
– Not yet past due	34,307	–	–	–	34,307
Cash and cash equivalents					
– Not yet past due	229,819	–	–	–	229,819
Loan receivables					
– Credit rating of A+ to BBB	254,119	47,456	–	–	301,575
	539,177	47,456	–	160,226	746,859

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered as "normal" when they are not past due and there is no information indicating that the financial assets have significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered as "doubtful".

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged time deposits, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of long term bank loans and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2018

	On demand *RMB'000*	No later than 1 year *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Trade and bills payables	48,523	53,275	–	–	101,798
Other payables and accruals	48,466	–	–	–	48,466
Interest-bearing bank borrowings	–	230,534	–	–	230,534
Loan from the ultimate holding company	–	–	384,650	–	384,650
	96,989	283,809	384,650	–	765,448

2017

	On demand *RMB'000*	No later than 1 year *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Trade and bills payables	118,286	52,475	–	–	170,761
Other payables and accruals	51,297	–	–	–	51,297
Interest-bearing bank borrowings	–	71,627	–	–	71,627
	169,583	124,102	–	–	293,685

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in financial assets at FVTPL (note 23) as at 31 December 2018. The Group's listed investments are listed on the Stock Exchanges and are valued at quoted market prices at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Equity price risk (continued)

The market equity index for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 December 2018	High/low 2018	31 December 2017	High/low 2017
Hong Kong – Hang Seng Index	25,846	33,484/24,451	29,919	30,200/21,844

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments *RMB'000*	Increase in profit before tax *RMB'000*	Increase in equity *RMB'000*
2018			
Investments listed in:			
Hong Kong – Financial assets at FVTPL	85,221	852	–
2017			
Investments listed in:			
Hong Kong – Financial assets at FVTPL	21,571	216	–

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt represents interest-bearing bank borrowings and a loan from the ultimate holding company. The gearing ratios as at the end of the reporting periods were as follows:

	2018 *RMB'000*	2017 *RMB'000*
Total debt	577,323	70,243
Total equity	1,706,800	1,433,799
Gearing ratio	33.8%	4.9%

43. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2019, the American Lighting, an indirect wholly-owned subsidiary of the Company, entered into a membership interest purchase agreement with Lighten Up Holdings, Inc. ("Lighten Up"), pursuant to which American Lighting has agreed to purchase 100% membership interest of Novelty Lights, LLC ("Novelty Lights") from Lighten Up for an aggregate consideration of approximately US$12,000,000, subject to adjustment under the said purchase agreement. After the initial closing on 1 January 2019, the Company indirectly holds 80% of the membership interests in Novelty Lights and Novelty Lights became an indirectly non-wholly owned subsidiary of the Company. Upon completion of the second closing, Novelty Lights will become an indirectly wholly owned subsidiary of the Company. For details, please refer to the Company's announcement dated 1 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

44. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the consolidated financial statements, due to the adoption of the new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation and accounting treatment.

45. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY

	2018 ***RMB'000***	2017 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**1,229**	–
Interests in subsidiaries	**1,484,992**	1,430,445
Total non-current assets	**1,486,221**	1,430,445
CURRENT ASSETS		
Cash and cash equivalents	**609**	5,293
CURRENT LIABILITIES		
Other payables and accruals	**6,830**	5,591
NET CURRENT LIABILITIES	**(6,221)**	(298)
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,480,000**	1,430,147
EQUITY		
Issued capital	**185,676**	186,912
Reserves (Note)	**1,294,324**	1,243,235
Total equity	**1,480,000**	1,430,147

Mr. Seah Han Leong
Director

Mr. Daniel P.W. Li
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

45. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Treasury shares *RMB'000*	Share premium *RMB'000*	Capital redemption reserve *RMB'000*	Special reserve *RMB'000*	Share compensation reserve *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2017	–	2,264,017	344	55,238	50,024	5,361	(501,565)	(8,220)	(832,781)	1,032,418
Total comprehensive income for the year	–	–	–	–	–	–	60,817	–	(6,104)	54,713
Issue of shares	–	166,098	–	–	–	–	–	–	–	166,098
Share repurchase	(11,304)	–	–	–	–	–	–	–	–	(11,304)
Cancellation of treasury shares	5,004	(5,004)	566	–	–	–	–	–	–	566
Equity-settled share option arrangements	–	–	–	–	–	744	–	–	–	744
At 31 December 2017 and 1 January 2018	(6,300)	2,425,111	910	55,238	50,024	6,105	(440,748)	(8,220)	(838,885)	1,243,235
Total comprehensive income for the year	–	–	–	–	–	–	68,037	–	(14,520)	53,517
Share repurchase	(3,664)	–	–	–	–	–	–	–	–	(3,664)
Cancellation of treasury shares	9,964	(9,964)	1,236	–	–	–	–	–	–	1,236
At 31 December 2018	–	2,415,147	2,146	55,238	50,024	6,105	(372,711)	(8,220)	(853,405)	1,294,324

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2019.