HongGuang Lighting Holdings Company Limited
宏光照明控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 6908

ANNUAL REPORT 2019

Contents

CORPORATE INFORMATION

Directors

Executive Directors

Mr. ZHAO Yi Wen (趙奕文)
(Chairman and Chief Executive Officer)
Mr. LIN Qi Jian (林啟建)
Mr. CHAN Wing Kin (陳永健)

Non-executive Director

Mr. CHIU Kwai San (趙桂生)

Independent Non-executive Directors

Professor CHOW Wai Shing, Tommy (周偉誠)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Mr. CHAN Chung Kik, Lewis (陳仲戟)

Audit Committee

Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Chairman)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Professor CHOW Wai Shing, Tommy (周偉誠)

Nomination Committee

Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Chairman)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Professor CHOW Wai Shing, Tommy (周偉誠)

Remuneration Committee

Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Chairman)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Professor CHOW Wai Shing, Tommy (周偉誠)

Company Secretary

Mr. CHAN Wing Kin (陳永健)

Authorised Representatives

Mr. CHAN Wing Kin (陳永健)
Mr. ZHAO Yi Wen (趙奕文)

Registered Office

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Head Office and Principal Place of Business in the People's Republic of China (the "PRC")

The North Side
2nd Floor
No. 8 Pinggong Er Road
Nanping Technology Industrial Park
Zhuhai
PRC

Place of Business in Hong Kong

33/F., Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION (CONTINUED)

Cayman Islands Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F, 148 Electric Road
North Point
Hong Kong

Principal Banker

Industrial and Commercial Bank of China
Zhuhai Gongbei Sub-branch
ICBC Tower
36 Guihuanan Road
Gongbei, Zhuhai
PRC

Compliance Adviser

Lego Corporate Finance Limited
Room 1601
16th Floor
China Building
29 Queen's Road Central
Central, Hong Kong

Legal Adviser

TC & Co., Solicitors
Units 2201–3
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

Auditor

BDO Limited
Certified Public Accountants
25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

Stock Code

6908

Company's Website

www.lighting-hg.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I am pleased to present the annual report of HongGuang Lighting Holdings Company Limited (the "**Company**") together with its subsidiaries (the "**Group**") for the year ended 31 December 2019 (the "**Year**" or "**2019**").

The successful transfer of listing of the shares of the Company from the GEM to the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 November 2019 (the "**Transfer of Listing**") marked another magnificent milestone in the history of the Group since our listing on the GEM on 30 December 2016 (the "**Listing**"). We believe the Transfer of Listing will enhance the profile of the Group, strengthen the Group's position in the industry and improve the Group's competitive strengths in retaining and attracting professional staff and customers.

During the Year, the demand for the Group's products remained robust. The Group achieved an increase in revenue of approximately 19.4% from approximately RMB203.7 million for the year ended 31 December 2018 (the "**Previous Year**" or "**2018**") to approximately RMB243.3 million for the year ended 31 December 2019.

The Group's principal operating subsidiary, Zhuhai HongGuang Lighting Fixture Company Limited* ("**Zhuhai HongGuang**") (珠海宏光照明器材有限公司), has successfully renewed the status of New and High Technology Enterprise* (高新技術企業), which allows Zhuhai HongGuang to enjoy the preferential income tax rate of 15% for the period from 1 January 2019 to 31 December 2021.

We recognize the vital role of research and development in the sustainable growth and success of our Group. During the Year, registration of 9 patents were further granted to Zhuhai HongGuang, owing to the Group's devotion to research and development in recent years.

In relation to elevating the Group's standard of quality and credibility of its brand, Zhuhai HongGuang has upgraded its quality management system and earned the IATF 16949:2016 certification in May 2019. The IATF 16949:2016 is an international quality management standard with more intense and stringent requirements than the ISO 9001.

Since the outbreak of the novel coronavirus (COVID-19) epidemic (the "**Epidemic**"), the manufacturing industry in the People's Republic of China ("**PRC**") is facing a multitude of unprecedented challenges. Although we see an improving situation regarding the Epidemic in the PRC as at the date of this report, the industry outlooks and prospects remain highly challenging and uncertain for the Company this year. In particular, the Group and its customers are likely to be adversely impacted by the sluggish consumer electronics market conditions and the delay of product launches by downstream consumer electronics companies. The Company will continue to monitor the market situation and strive to mitigate any adverse impact it may face to the best of its ability.

CHAIRMAN'S STATEMENT (CONTINUED)

Finally, on behalf of the Board, I would like to express my sincere appreciation to our staff and employees for their dedication and hard work in forging a resilient future. I must also thank all shareholders, investors, business partners, suppliers and customers of the Company for their ongoing support and trust.

On behalf of the Board,
Mr. Zhao Yi Wen
Chairman

Hong Kong, 27 March 2020

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Business Activities

The Group is principally engaged in the design, development, manufacturing, subcontracting service and sales of light-emitting diode ("**LED**") beads and LED lighting products in the PRC. Since the Listing, there are no significant change in the business operations of the Group. During the Year, the Group generally recognised revenue from the sales of LED beads and LED lighting products upon delivery of the products to the customers with their acceptance of the products and recognised revenue from subcontracting service based on the stage of completion of the contract by adopting the input method.

Business Review

The Group's revenue increased from approximately RMB203.7 million for the year ended 31 December 2018 to approximately RMB243.3 million for the year ended 31 December 2019. The demand for slim LED beads continued its strong momentum during the year ended 31 December 2019, which contributed approximately RMB89.9 million to the Group's revenue for the Year, as compared to approximately RMB53.1 million for the Previous Year. Since July 2019, the Group has commenced its commercial production of LED beads under a subcontracting arrangement with a new customer, which is a South Korea listed LED parts manufacturer. The revenue derived from the subcontracting arrangement was approximately RMB2.0 million for the year ended 31 December 2019 (2018: nil).

Profit for the year ended 31 December 2019 amounted to approximately RMB17.3 million (approximately RMB23.9 million for the year ended 31 December 2018), which represents a decrease of approximately RMB6.6 million or approximately 27.6% as compared to that of the Previous Year. Such decrease was mainly attributable to (i) the increase in the professional services expenses in relation to the Transfer of Listing; and (ii) the increase in research and development expenses.

On 6 May 2019, the Company submitted a formal application to the Stock Exchange for a proposed transfer of listing from the GEM to the Main Board of the Stock Exchange. On 13 November 2019, the shares of the Company were successfully listed on the Main Board of the Stock Exchange. The Directors are of the view that the Transfer of Listing will be beneficial to the Group's future growth as well as business development which will create a long-term value to the shareholders of the Company.

In May 2019, Zhuhai HongGuang was accredited with the IATF 16949:2016, a widely used international standards for quality management in the automotive industry. The Directors believe that this accreditation will help the Group to open up more business opportunities in the future, as IATF 16949:2016 applies to the design, development, production, installation and servicing of automotive-related products (e.g. display panels used in vehicles).

During the Year, registration of 9 patents were further granted to Zhuhai HongGuang. As at 31 December 2019, the Group is the registered proprietor of 27 patents in the PRC.

Zhuhai HongGuang has successfully renewed its status of New and High Technology Enterprise* (高新技術企業). Accordingly, Zhuhai HongGuang is entitled to a tax preference with a reduction of the enterprise income tax rate in the PRC from 25% to 15% for the period from 1 January 2019 to 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The industry outlooks and prospects have become highly challenging and uncertain for the Company following the outbreak of the novel coronavirus (COVID-19) epidemic. In particular, the Group and its customers are likely to be adversely impacted by the sluggish consumer electronics market conditions and the delay of product launches by downstream consumer electronics companies. The Company will continue to monitor the market situation and strive to mitigate any adverse impact it may face to the best of its ability.

Financial Highlights

Year ended 31 December (RMB'000)	**2019**	2018	Percentage Change
Revenue	**243,260**	203,747	19.4%
Cost of sales	**(182,996)**	(155,899)	17.4%
Gross profit	**60,264**	47,848	25.9%
Profit before income tax expense	**23,078**	29,036	–20.5%
Net profit	**17,278**	23,896	–27.7%
Earnings per share (RMB)	**0.0432**	0.0597	–27.6%
Total assets	**246,096**	198,948	23.7%
Total equity	**167,596**	150,210	11.6%
Key Financial Ratios			
Gross profit margin (%)	**24.8**	23.5	
Net profit margin (%)	**7.1**	11.7	
Return on equity (%)	**10.3**	15.9	
Return on assets (%)	**7.0**	12.0	
Current ratio	**2.8**	3.7	
Gearing ratio (%)	**7.7**	N/A	

Financial Review

Revenue

For the year ended 31 December 2019, total revenue was approximately RMB243.3 million, representing an increase of approximately 19.4% as compared with the Previous Year (2018: approximately RMB203.7 million). The increase was mainly attributable to the increase in revenue from the sales of LED beads.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	2019		2018	
	RMB'000	**%**	RMB'000	%
LED beads	**234,980**	**96.6**	198,392	97.4
LED lighting products	**6,299**	**2.6**	5,355	2.6
Subcontracting service	**1,981**	**0.8**	—	—
Total	**243,260**	**100.0**	203,747	100.0

For the year ended 31 December 2019, revenue from LED beads amounted to approximately RMB235.0 million (2018: approximately RMB198.4 million), accounting for 96.6% of the total revenue (2018: 97.4%). The increase in revenue was mainly due to an increase in the sales volume during the Year, as the demand for backlight LED products and LED beads in the PRC remains robust.

Revenue from LED lighting products during the Year amounted to approximately RMB6.3 million (2018: approximately RMB5.4 million), representing 2.6% of the total revenue (2018: 2.6%).

Revenue from subcontracting service during the Year amounted to approximately RMB2.0 million (2018: nil), representing approximately 0.8% of the total revenue (2018: nil).

Cost of Sales

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It increased by approximately 17.4% from approximately RMB155.9 million for the year ended 31 December 2018 to approximately RMB183.0 million for the year ended 31 December 2019, reflecting an increase in the sales volume of LED beads and LED lighting products, which mainly led to the increase in the cost of material used during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit and Gross Profit Margin

The gross profit increased from approximately RMB47.8 million for the year ended 31 December 2018 to approximately RMB60.3 million for the year ended 31 December 2019. The gross profit margin increased from approximately 23.5% for the year ended 31 December 2018 to approximately 24.8% for the year ended 31 December 2019. The following table sets forth a breakdown of the gross profit and gross profit margin by segment for the periods indicated:

	Year ended 31 December 2019		Year ended 31 December 2018	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
LED beads	**55,202**	**23.5**	45,412	22.9
LED lighting products	**3,081**	**48.9**	2,436	45.5
Subcontracting service	**1,981**	**N/A** (Note)	—	—
Total gross profit/gross profit margin	**60,264**	**24.8**	47,848	23.5

Note: The gross profit margin did not apply to the subcontracting service income as the amount was recognized on net basis.

The gross profit margin of LED beads increased slightly from approximately 22.9% for the year ended 31 December 2018 to approximately 23.5% for the year ended 31 December 2019. Such increase was mainly attributable to the decrease in the average purchase price of the raw materials.

The gross profit margin of LED lighting products experienced an increase from approximately 45.5% for the year ended 31 December 2018 to approximately 48.9% for the year ended 31 December 2019. Such increase was mainly due to the higher proportion of sales of LED lighting products with higher profit margin during the Year, as compared to the Previous Year.

Other Income and Gains

Other income and gains of the Group increased by approximately 300.0% from approximately RMB0.2 million for the year ended 31 December 2018 to approximately RMB0.8 million for the year ended 31 December 2019, which was mainly due to the increase in interest income during the Year.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 81.8% from approximately RMB1.1 million for the year ended 31 December 2018 to approximately RMB2.0 million for the year ended 31 December 2019. The selling and distribution expenses mainly comprised of staff costs, traveling expenses and entertainment expenses. The increase in selling and distribution expenses was mainly attributable to the increase in traveling expenses and staff costs.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Administrative and Other Expenses

The Group's administrative and other expenses increased by approximately 77.1% from approximately RMB19.2 million for the year ended 31 December 2018 to approximately RMB34.0 million for the year ended 31 December 2019. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The increase in administrative and other expenses was mainly due to (i) the increase in the professional services expenses in relation to the Transfer of Listing; and (ii) the increase in research and development costs during the Year. The professional services expenses in relation to the Transfer of Listing (the "**Transfer Expenses**") were approximately RMB9.1 million for the year ended 31 December 2019 (2018: nil). The research and development expenses were approximately RMB14.0 million for the year ended 31 December 2019 (2018: approximately RMB10.0 million). The Group has placed more emphasis on the research and development in slim LED beads and has commissioned the School of Applied Physics and Material Science of Wuyi University (五邑大學) to conduct specific research projects for the Group in the second half of 2018.

Finance Costs

The Group's finance costs was approximately RMB0.5 million for the year ended 31 December 2019 (2018: nil). The increase in finance costs was mainly attributable to the new bank borrowings during the Year. As at 31 December 2019, the total available banking facilities of the Group were RMB15.0 million (31 December 2018: nil). The total drawn down from the banking facilities as at 31 December 2019 was approximately RMB12.9 million (31 December 2018: nil).

Income Tax Expense

Income tax expense of the Group for the Year was approximately RMB5.8 million (2018: approximately RMB5.1 million). The increase in income tax expense was primarily attributable to the Group's increase in revenue during the Year.

Profit for the Year

The profit for the Year decreased by approximately RMB6.6 million or approximately 27.6% from approximately RMB23.9 million for the year ended 31 December 2018 to approximately RMB17.3 million for the year ended 31 December 2019. The decrease in profit for the Year was mainly attributable to the increase in administrative and other expenses, in particular, the Transfer Expenses, for the Year, as compared to the Previous Year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Net Profit Margin

The net profit margin was approximately 7.1% for the year ended 31 December 2019, compared to that of 11.7% for the year ended 31 December 2018. The decrease was mainly due to the increase in administrative and other expenses, in particular, the Transfer Expenses, for the Year, as compared to the Previous Year.

Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil), in order to cope with the future business development of the Group.

Comparison between Business Objectives with Actual Business Progress

The following is a comparison of the Group's business strategies as set out in the Company's prospectus dated 16 December 2016 (the "**Prospectus**") with the actual business progress up to 31 December 2019:

Business strategies as set out in the Prospectus	Actual business progress up to 31 December 2019
— Expanding the production capacity	The Group has purchased 86 additional machineries for LED bead encapsulation.
— Developing the Group's sales channels	The Group has recruited five sales and marketing staff and in the process of exploring PRC and overseas markets.
— Reduction of the gearing ratio	The Group has fully repaid all bank loans in 2017 and successfully reduced the gearing ratio for the years ended 31 December 2017 and 2018. New bank loans were raised during the year ended 31 December 2019 for general working capital purpose.

One of the key risks and uncertainties facing the Group is technological risk. During the Year, the Group has continued to put emphasis on research and development and registration of 9 patents were further granted to Zhuhai HongGuang. As at 31 December 2019, the Group is the registered proprietor of 27 patents in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Use of Proceeds

Based on the placing price of HK$0.63 per share, the net proceeds from the Listing, after deducting the underwriting commission and other estimated expenses, amounted to approximately HK$37.4 million. The Group intended to apply such net proceeds in accordance with the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 31 December 2019, the Group's planned application and actual utilisation of the net proceeds is set out below:

Use of proceeds	**Net proceeds** HK$ million	**Utilised** HK$ million	**Unutilised** HK$ million	**Expected timeline for utilising the unutilised proceeds** (Note)
Expansion of the Group's production capacity	21.7	21.7	—	N/A
Developing the Group's sales channels	0.8	0.6	0.2	On or before 31 December 2020
Repayment of bank loans	11.4	11.4	—	N/A
General working capital of the Group	3.5	3.5	—	N/A
	37.4	37.2	0.2	

Note: The expected timeline for utilising the unutilised proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 2019, the amount of net cash used by the Group in its operating activities is approximately RMB14.1 million as compared to that of approximately RMB46.8 million for the year ended 31 December 2018, primarily due to the greater increase in trade and bills receivables during the year ended 31 December 2019, as compared to the smaller increase in trade and bills receivables in the corresponding period in 2018.

As at 31 December 2019, the Group had net current assets of approximately RMB135.8 million (2018: approximately RMB130.2 million). The Group's current ratio as at 31 December 2019 was approximately 2.8 (2018: approximately 3.7).

As at 31 December 2019, the Group had total cash and bank balances of approximately RMB30.3 million (2018: approximately RMB49.8 million). The decrease in total cash and bank balances was mainly due to the application of approximately RMB14.1 million and RMB16.9 million, in the operating activities and the investment activities respectively during the year.

As at 31 December 2019, the total available banking facilities of the Group were RMB15.0 million (31 December 2018: nil). The total drawn down of the banking facilities as at 31 December 2019 was approximately RMB12.9 million (31 December 2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 30 December 2016 and the listing of the Company's shares has been transferred from the GEM to the Main Board of the Stock Exchange since 13 November 2019. There has been no change in the capital structure of the Company since 30 December 2016. The capital of the Company comprises only ordinary shares. As at 31 December 2019, the equity attributable to owners of the Company amounted to approximately RMB167.6 million (2018: approximately RMB150.2 million).

Return on Equity

Return on equity (i.e. net profit for the year divided by total equity of the year and multiplied by 100%) decreased from approximately 15.9% for the year ended 31 December 2018 to approximately 10.3% for the year ended 31 December 2019. Such decrease was mainly attributable to the decrease in net profit as a result of the increase in administrative and other expenses during the Year.

Return on Assets

Return on assets (i.e. net profit for the year divided by total assets of the year and multiplied by 100%) decreased from approximately 12.0% for the year ended 31 December 2018 to approximately 7.0% for the year ended 31 December 2019. Such decrease was mainly attributable to the decrease in net profit as a result of the increase in administrative and other expenses during the Year.

Current Ratio

Current ratio (i.e. total current assets at the end of the year divided by total current liabilities at the end of the year) decreased from approximately 3.7 as at 31 December 2018 to approximately 2.8 as at 31 December 2019, primarily due to the increase in (i) bank borrowings and (ii) other payables and accruals for the year ended 31 December 2019.

Gearing Ratio

The Group's gearing ratio (i.e. total debt at the end of the year divided by total equity at the end of the year and multiplied by 100%) as at 31 December 2019 was 7.7% (31 December 2018: nil).

Significant Investments

As at 31 December 2019, there was no significant investment held by the Group (2018: Nil).

Material Acquisitions and Disposals

The Group did not carry out any material acquisition nor disposal of any subsidiary during the year ended 31 December 2019.

Capital Commitments

As at 31 December 2019, the Group did not have any capital commitments for the acquisition of property, plant and equipment. (2018: approximately RMB1.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Charge on the Group's assets

As at 31 December 2019, the Group pledged the following assets for the issuance of bank acceptance bills by the Group:

(i) time deposits of nil (31 December 2018: approximately RMB3.0 million);

(ii) bank deposit of nil (31 December 2018: RMB1.0 million); and

(iii) financial assets at fair value through profit or loss of approximately RMB13.2 million (31 December 2018: approximately RMB6.9 million).

In addition, as at 31 December 2019, charges were created over the right-of-use assets of approximately RMB2.4 million under a lease arrangement (31 December 2018: nil).

Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the year ended 31 December 2019, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 31 December 2019, the Group employed 156 employees (2018: 121 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB9.1 million for the year ended 31 December 2019 (2018: approximately RMB7.9 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that the employees' overall remuneration is determined based on the performance of the Company and the employees.

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details in respect of the directors (the "**Directors**") and the senior management of HongGuang Lighting Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") as at the date of this annual report are as follows:

Executive Directors

Mr. ZHAO Yi Wen (趙奕文), aged 50, is the Chairman of the Board and the Chief Executive Officer of the Company. He was appointed as a Director on 27 May 2015 and was subsequently re-designated as an Executive Director on 13 May 2016. He is one of the founders of the Group and is primarily responsible for formulating overall corporate strategies and handling day to day management of the Group. Mr. Zhao is also a director of each of HongGuang Lighting Group Company Limited ("**HongGuang Lighting**") and HongGuang Lighting (International) Limited ("**HongGuang International**") and the chairman and legal representative of Zhuhai HongGuang Lighting Fixture Company Limited* ("**Zhuhai HongGuang**").

Prior to establishing the Group in May 2010, Mr. Zhao had years of management experience of electronic parts business. During the period between January 2004 and May 2010, Mr. Zhao was employed by Zhuhai Kedie Digital Technology Co., Ltd.* (珠海市科碟數碼科技有限公司) which mainly manufactures and sells compact disks in the PRC, as a general manager and was responsible for the overall management of its business operation.

Since 2012, Mr. Zhao has been a director of Zhuhai Ridong Weiye Technology Company Limited* (珠海日東偉業科技有限公司), a limited liability company incorporated in the PRC which mainly manufactures and trades Indium Tin Oxide films, where Mr. Zhao is responsible for the overall management of the company. Mr. Zhao attended secondary school education up to year 3 in the PRC.

Mr. LIN Qi Jian (林啟建), aged 41, was appointed as an Executive Director on 13 May 2016. He is one of the founders of the Group and is primarily responsible for overseeing the overall business operation of the Group. Mr. Lin is also the supervisor and general sales manager of Zhuhai HongGuang.

Mr. Lin has over 18 years of experience in production of electronics components. From 1999 to 2016, Mr. Lin was the chairman of Zhuhai Special Economic Zone Lijia Electronics Development Company Limited* (珠海經濟特區利佳電子發展有限公司), a limited liability company incorporated in the PRC which mainly manufactures and sells photosensitive resistors where Mr. Lin was responsible for formulating sales strategies, marketing and customer services. From 2004 to 2015, Mr. Lin was appointed as a supervisor of Zhuhai Kedie Digital Technology Co., Ltd.* (珠海市科碟數碼科技有限公司), a private company in the PRC, where he was responsible for monitoring the operation of the company. Mr. Lin attended secondary school education up to year 2 in the PRC.

Mr. CHAN Wing Kin (陳永健), aged 39, was appointed as a Director on 27 May 2015 and subsequently re-designated as an Executive Director on 13 May 2016. He is also the Company Secretary of the Company and a director of HongGuang Lighting and HongGuang Lighting (Hong Kong) Holdings Limited ("**HongGuang Hong Kong**"). Mr. Chan is primarily responsible for the financial management of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chan obtained a Bachelor Degree of Economics and Finance with first class honours from The University of Hong Kong in December 2003 and a Master's Degree of Economics from The University of Hong Kong in December 2004. Mr. Chan is currently a fellow of the Hong Kong Institute of Certified Public Accountants, a certified internal auditor of the Institute of Internal Auditors, and a certified fraud examiner of the Association of Certified Fraud Examiners.

Mr. Chan has over 15 years of experience in the electronics industrial sector and in the accounting and internal controls sector. Prior to joining the Group, Mr. Chan was a purchasing supervisor in Jetcrown Industrial (Dongguan) Limited from September 2004 to April 2008 and was responsible for monitoring the daily purchasing operations and the staff recruitment of the company. From July 2008 to April 2010, Mr. Chan was an accountant in KPMG, where he had assisted in a number of audit assignments for a number of major corporate clients of KPMG. In April 2010, Mr. Chan joined Deloitte Touche Tohmatsu as an analyst of the Enterprise Risk Services Department. He was subsequently promoted to the position of manager before his resignation in February 2015. During his term of employment in Deloitte Touche Tohmatsu, Mr. Chan participated in internal controls, risk management and corporate governance advisory projects.

Non-executive Director

Mr. CHIU Kwai San (趙桂生), aged 57, was appointed as a Non-executive Director on 13 May 2016. He is primarily responsible for monitoring the executive activities and providing strategic advice to the Group. Mr. Chiu is also a director of each of HongGuang International and HongGuang Hong Kong and the vice chief director of Zhuhai HongGuang.

Mr. Chiu has over 18 years of experience in trading, sales and management. Mr. Chiu has been a director of Success Royal Limited, a private company incorporated in Hong Kong in 2003 which mainly manufactures ink and glue, etc., where Mr. Chiu is responsible for managing the operation of the company. Mr. Chiu attended secondary school education up to year 3 in the PRC.

Independent Non-executive Directors

Professor CHOW Wai Shing, Tommy (周偉誠), aged 60, was appointed as an Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Professor Chow is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Professor Chow obtained his Bachelor Degree of Science in Electrical and Electronic Engineering with first class honours from Sunderland Polytechnic (currently known as the University of Sunderland) in the United Kingdom in June 1984 and a Doctoral Degree of Philosophy for his research in the electrical engineering field from the same university in April 1988. Since 2000, Professor Chow has been a professor of the Department of Electronic Engineering of the City University of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Professor Chow had served over the years as (i) the chairman and member of a number of committees of Hong Kong Institution of Engineers ("**HKIE**"); (ii) a member of the CAI Discipline Advisory Panel of HKIE; and (iii) a professional assessment assessor for HKIE. During the period between 1998 and 2004, Professor Chow served as a member of the Electronics & Communication Industry Safety & Health Committee of the Occupational Safety & Health Council. Professor Chow was also a member of the Public Affairs Forum of the Hong Kong Government.

Professor Chow is a fellow of the Institute of Electrical and Electronics Engineering since January 2019.

Mr. WU Wing Kuen, ***B.B.S.*** **(胡永權)**, aged 63, was appointed as an Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Mr. Wu is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Wu has over 26 years of experience in real estate investment. He has been the director of Jet View Investment Limited since December 1991 and a director of Jade Mind Investment Limited since October 2004. Both companies mainly invest in real estate.

Mr. Wu was awarded a Bronze Bauhinia Star from the HKSAR Government in July 2012. Mr. Wu is also currently a voting member of the Hong Kong Jockey Club and the president of the Sha Tin District Community Fund. Mr. Wu had also served the community under various other positions in the past. He was a member of the Sha Tin District Fight Crime Committee, a member of the Appeal Tribunals Panel of the Planning and Lands Branch of the Development Bureau of the HKSAR Government.

Mr. Wu is an independent non-executive director of (i) Nanfang Communication Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1617) since November 2016; (ii) Million Cities Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2892) since June 2018; and (iii) Food Idea Holdings Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8179) since January 2019; and (iv) EFT Solutions Holdings Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8062) since March 2019.

Mr. CHAN Chung Kik, Lewis (陳仲戟), aged 47, was appointed as an Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Mr. Chan is also the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Chan obtained a Bachelor Degree of Commerce in Accounting from the University of Canberra in Australia in September 1997. He is currently a fellow of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan has more than 22 years of experience in auditing, accounting and corporate finance. Currently, Mr. Chan is the chief financial officer and the joint company secretaries of Denox Environmental & Technology Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1452).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chan has also been/is an independent non-executive director of (i) Kwan On Holdings Limited between March 2015 and September 2016, a company which was previously listed on the GEM (Stock Code: 8305) and was subsequently transferred to the Main Board (Stock Code: 1559) on 15 August 2016; (ii) Shandong Xinhua Pharmaceutical Company Limited between May 2014 and June 2018, a company listed on the Main Board of the Stock Exchange (Stock Code: 719) and the Shenzhen Stock Exchange (Stock Code: 000756); (iii) Founder Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 418) since March 2017; (iv) Peking University Resources (Holdings) Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 618) since March 2017; (v) Wing Chi Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6080) since September 2017; and (vi) Eternity Technology Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1725) since July 2018.

Senior Management

Ms. QI Xiang Ling (綦香玲), aged 49, is the financial controller of Zhuhai HongGuang. Ms. Qi joined the Group in August 2010. She is mainly responsible for supervising financial reporting, corporate finance, treasury, tax and other financial related matters of the Group. Ms. Qi obtained a Certificate of Accounting Profession issued by the Ministry of Finance of the PRC in August 2002.

Prior to joining the Group, Ms. Qi worked as an accountant at Zhuhai Yuntian Dianqi Co., Ltd.* (珠海雲田電器有限公司) from January 2005 to December 2005. From June 2006 to August 2010, she worked as the finance manager of Zhuhai City Jiajule Zhuangshi Cailiao Company Limited* (珠海市家居樂裝飾材料有限公司).

Mr. XU Jian Hui (許建輝), aged 63, is a director of Zhuhai HongGuang. Mr. Xu joined the Group as a general manager of Zhuhai HongGuang in March 2011 and was subsequently appointed as a director of the same company in November 2014. Mr. Xu is primarily responsible for the daily operation, administrative and productions management of Zhuhai HongGuang. Mr. Xu obtained an Assistant Engineer Practising Certificate from the Engineering Technology Professional Title Committee of Shantou Electronic Industry Corporation* (汕頭市電子工業總公司工程技術初級職務評審委員會) in December 1995.

Prior to joining the Group, during the period between May 1987 and June 1997, Mr. Xu was the business plan coordinator at Shantou Metallic Material Corporation* (汕頭市金屬材料總公司), where he was responsible for the resources coordination and management in the company. From June 1997 to July 2002, he worked as a clerk at Shantou Kexin Development Corporation* (汕頭市科信發展總公司), where he was responsible for the daily administration of the company. From June 2003 to July 2008, Mr. Xu worked as the deputy general manager at Jieyang Dong Huang Culture Development Limited* (揭陽東煌文化發展有限公司), where he was primarily responsible for the administration and production management of the company. From October 2008 to April 2010, he worked as the deputy general manager at Zhuhai Special Economic Zone Hai Na Laser Manufacture Limited* (珠海經濟特區海納激光制作有限公司), where he was primarily responsible for the production management of the company.

* For identification purpose only

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Board is committed to maintaining a good corporate governance standard, with the Chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to shareholders and creditors. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Save for Code Provision A.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual (Please refer to the paragraph entitled "Chairman and Chief Executive" on page 23), the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2019.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "**Required Standard of Dealings**"). The Company had also made specific enquiry of all the Directors and the Company is not aware of any non-compliance with the Required Standard of Dealings regarding securities transactions by the Directors for the year ended 31 December 2019.

Board of Directors

Board Composition

As at 31 December 2019, the Board comprised of three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The composition of the Board is as follows:

Executive Directors

Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*
Mr. Lin Qi Jian
Mr. Chan Wing Kin

Non-executive Director

Mr. Chiu Kwai San

Independent Non-executive Directors

Professor Chow Wai Shing, Tommy
Mr. Wu Wing Kuen, *B.B.S.*
Mr. Chan Chung Kik, Lewis

CORPORATE GOVERNANCE REPORT (CONTINUED)

Functions, Roles and Responsibilities of the Board

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the Chief Executive Officer and senior management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group. The abovementioned personnel should report back and obtain prior approval from the Board before making any significant decisions or entering into any significant commitments on the Company's behalf, and they may not exceed any authority given to them by resolutions of the Board or the Company.

The Non-executive Director does not involve general management and day-to-day operation of the Group. However, he will provide advice on strategic direction for the Group in Board meetings.

The Independent Non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board, on issues of strategic direction, policies, development, performance and risk management. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, they scrutinise the Company's performance in achieving corporate goals and objectives and monitor performance reporting. By doing so, they are able to contribute positively to the Company's strategy and policies through independent, constructive and informed comments at Board and committee meetings.

Each Director has confirmed that he can give sufficient time and attention to the Company's affairs, and has regularly provided information on the number and nature of offices held in public companies or organisations and other significant commitments, including the identity of such companies or organisations and an indication of the time involved.

The Company has arranged appropriate insurance cover for Directors' liabilities in respect of legal actions against them for corporate activities.

Board/Board Committee Meetings

The Board is scheduled to meet in person or through other electronic means of communication at least four times a year to, among other matters, review past financial and operating performance and discuss the Group's direction and strategy. An agenda and accompanying papers together with all appropriate information will be sent to all Directors at least 3 days before each Board or committee meeting so as to ensure timely access to relevant information. Appropriate notice of at least 14 days for regular Board meetings and reasonable notice for other Board committee meetings will be given to all Directors, who will all be given an opportunity to attend and include matters in the agenda for discussion. Senior management will be invited to join all Board meetings to enhance communication between the Board and management; the Board and each Director will also have separate and independent access to senior management whenever necessary. The Company Secretary will take detailed minutes of the meetings and keep records of matters discussed and decisions resolved at the meetings, including any concerns raised or dissenting views expressed by Directors, and the voting results of Board meetings fairly reflect Board consensus. Both draft and final versions of the minutes will be sent to all Directors for their comments and records respectively, within a reasonable time after each meeting, and such minutes will be open for inspection with reasonable advance notice by any Director. Directors are entitled to have access to board papers and related materials, and any queries will be responded to fully.

Upon reasonable request to the Board, the Directors can seek independent professional advice in performing their duties at the Company's expense, if necessary. According to the current Board's practice, should a potential conflict of interest involving a substantial shareholder or Director of the Company arise, the matter will be discussed in a Board meeting, as opposed to being dealt with by written resolution. Independent Non-executive Directors with no conflict of interest will be present at such meetings. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director concern will declare his/her interest and abstains from voting.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Meetings Held and Attendance

The composition of the Board and the committees, and the individual attendance records of each Director at the Board and committees' meeting during the year are set out below:

	Meetings attended/Meetings held					
Name of Directors	**Board meetings**	**Audit committee meetings**	**Remuneration committee meetings**	**Nomination committee meetings**	**Annual general meetings**	**Extraordinary general meetings**
Executive Directors						
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*	6/6	N/A	N/A	N/A	1/1	N/A
Mr. Lin Qi Jian	6/6	N/A	N/A	N/A	1/1	N/A
Mr. Chan Wing Kin	6/6	N/A	N/A	N/A	1/1	N/A
Non-executive Director						
Mr. Chiu Kwai San	6/6	N/A	N/A	N/A	1/1	N/A
Independent Non-executive Directors						
Professor Chow Wai Shing, Tommy	6/6	5/5	2/2	2/2	1/1	N/A
Mr. Wu Wing Kuen, *B.B.S*	6/6	5/5	2/2	2/2	1/1	N/A
Mr. Chan Chung Kik, Lewis	6/6	5/5	2/2	2/2	1/1	N/A

Corporate Governance Functions

No corporate governance committee of the Company has been established. In compliance with code provision D.3 of the CG Code, the Board as a whole is responsible for performing corporate governance duties which include: (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Chairman and Chief Executive

Mr. Zhao Yi Wen ("**Mr. Zhao**") is the Chairman of the Board who is primarily responsible for formulating overall corporate strategies. Mr. Zhao is also the Chief Executive Officer of the Company who is primarily responsible for day-to-day management of the Group. In accordance with Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and their respective responsibilities should be clearly defined in writing. In view of Mr. Zhao being one of the founders of the Group and has been operating and managing Zhuhai HongGuang, the operating subsidiary of the Company, since 2010, the Board believes that it is in the best interest of the Group to have Mr. Zhao taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from the Code Provision A.2.1 is appropriate in such circumstance.

Code Provision A.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the Independent Non-executive Directors without the presence of other Directors. During the year of 2019, one meeting between the Chairman of Board and the Independent Non-executive Directors was held.

Continuing Professional Development

Pursuant to the Code Provision A.6.5 under Appendix 14 of the Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses.

During the Year, all Directors have participated in continuing professional development by attending training course organised by the Company and reading relevant materials on topics related to corporate governance and regulatory matters. The Directors have confirmed that they have received the trainings as follows:

Name of Directors	Type of trainings
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*	A, B
Mr. Lin Qi Jian	A, B
Mr. Chan Wing Kin	A, B
Mr. Chiu Kwai San	A, B
Professor Chow Wai Shing, Tommy	A, B
Mr. Wu Wing Kuen, *B.B.S*	A, B
Mr. Chan Chung Kik, Lewis	A, B

A: attending seminars/conferences/forums

B: reading newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Committees

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees are established with written terms of reference, which have complied with the CG Code and are available on the Stock Exchange website at www.hkexnews.hk and the Company's website at www.lighting-hg.com and are available to shareholders upon request. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board committees will report back to the Board on their decisions or recommendations.

Audit Committee

The Company established the Audit Committee on 2 December 2016 with written terms of reference in compliance with the Listing Rules. The Audit Committee consists of all the Independent Non-executive Directors, namely, Mr. Chan Chung Kik Lewis, Mr. Wu Wing Kuen and Professor Chow Wai Shing, Tommy. Mr. Chan Chung Kik Lewis is the chairman of the Audit Committee. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process and the internal control and risk management systems of the Group.

The Audit Committee held five meetings during the year ended 31 December 2019. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 22 for the individual attendance records of each member of the Audit Committee.

Remuneration Committee

The Company established the Remuneration Committee on 2 December 2016 with written terms of reference in compliance with the Listing Rules. The Remuneration Committee consists of three members, namely, Mr. Chan Chung Kik Lewis, Mr. Wu Wing Kuen and Professor Chow Wai Shing, Tommy. Mr. Chan Chung Kik Lewis is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration of the Directors and senior management of the Company, determine on behalf of the Board specific remuneration packages and conditions of employment for the Directors and senior management of the Company, and to assess the performance of the Directors and senior management of the Company.

The Remuneration Committee held two meetings during the year ended 31 December 2019. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 22 for the individual attendance records of each member of the Remuneration Committee.

Nomination Committee

The Company established the Nomination Committee on 2 December 2016 with written terms of reference in compliance with the Listing Rules. The Nomination Committee consists of three members, namely, Mr. Chan Chung Kik Lewis, Mr. Wu Wing Kuen and Professor Chow Wai Shing, Tommy. Mr. Chan Chung Kik Lewis is the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment, re-election and succession planning of Directors.

The Nomination Committee held two meetings during the year ended 31 December 2019 to recommend the re-appointment of Directors standing for re-election at the annual general meeting, to review the size, structure, composition as well as diversity of the Board and to assess the independence of Independent Non-executive Directors. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 22 for the individual attendance records of each member of the Nomination Committee.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, industry experience, technical and professional skills and/or qualifications, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness.

For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

1. At least one-third of the members of the Board shall be Independent Non–executive Directors; and

2. Enhance gender diversity (female representation) on the Board.

As at 31 December 2019, representation of Independent Non-executive Directors on the Board was 42%.

As at 31 December 2019, female representation on the Board was 0%. For the year ended 31 December 2019, no new Director was appointed.

The Board will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and report to the Board annually.

CORPORATE GOVERNANCE REPORT (CONTINUED)

During the year ended 31 December 2019 and as at the date of this annual report, the Board comprises seven Directors. The following tables illustrate the diversity of the Board Members as of the date of this annual report:

	Age Group			
Name of Directors	**Below 40**	**40–50**	**51–60**	**61 and above**
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*		✓		
Mr. Lin Qi Jian		✓		
Mr. Chan Wing Kin	✓			
Mr. Chiu Kwai San			✓	
Professor Chow Wai Shing, Tommy			✓	
Mr. Wu Wing Kuen, *B.B.S*				✓
Mr. Chan Chung Kik, Lewis		✓		

	Professional Experience				
Name of Directors	**Business Management**	**Accounting and Finance**	**Sales and Marketing**	**Teaching and public services**	**Real Estate Investment**
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*	✓				
Mr. Lin Qi Jian	✓				
Mr. Chan Wing Kin		✓			
Mr. Chiu Kwai San			✓		
Professor Chow Wai Shing, Tommy				✓	
Mr. Wu Wing Kuen, *B.B.S*					✓
Mr. Chan Chung Kik, Lewis		✓			

Nomination Policy

The Company has adopted a Nomination Policy which sets out the selection criteria of Board members and the appointment process. In assessing the suitability of a candidate for directorship, the Nomination Committee shall consider the following criteria:

(a) Accomplishment, experience, reputation in the manufacturing industry and qualifications which include professional and academic qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

(b) The number of existing directorships and other commitments that may demand the attention of the candidate;

(c) The ability to assist and support the management and make significant contributions to the Company's success;

(d) Willingness to devote sufficient time to discharge his/her duties as a Board member and other directorships and commitment in respect of time, interest and attention to the Company's business;

(e) Requirement for the Board to have Independent Non-executive Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in Rule 3.13 of the Listing Rules;

(f) Board Diversity Policy of the Company and any measurable objectives adopted by the Board for achieving diversity on the Board;

(g) Any other relevant factors as may be determined by the Board from time to time.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Director Nomination Procedure

Subject to the provisions in the Articles of Association of the Company and the Listing Rules, if the Board recognizes the need for an additional Director or a member of senior management, the following procedure will be followed:

(1) The Nomination Committee and/or the Board will identify potential candidate(s) based on the criteria as set out in the selection criteria, possibly with assistance from external agencies and/or advisors;

(2) The Nomination Committee and/or the Company Secretary of the Company will then provide the Board with the biographical details of the candidate(s) and details of his/her/their relationship with the Company and/or Directors, directorships held, skills and experience, other positions which involve significant time commitment and any other particulars required by the Listing Rules, the Companies Law of the Cayman Islands and other regulatory requirements for any candidate(s) for appointment to the Board;

(3) The Nomination Committee would then make recommendation to the Board on the proposed candidate(s) and the terms and conditions of the appointment;

(4) The Nomination Committee should ensure that the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;

(5) In the case of the appointment of an Independent Non-executive Director, the Nomination Committee should obtain all information in relation to the proposed Director to allow the Board to adequately assess the independence of the Director in accordance with the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time; and

(6) The Board will then deliberate and decide on the appointment based upon the recommendation of the Nomination Committee.

Accountability and Audit

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business.

Accordingly, the Board has prepared the financial statements of the Company on a going concern basis. The Board also acknowledges its responsibility to present a balanced, clear and comprehensible assessment in the Company's annual and half-yearly reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to the regulators as well as to information required to be disclosed pursuant to statutory requirements.

The above statements, which should be read in conjunction with the independent auditor's report, are made with a view to distinguishing for Shareholders how the responsibilities of the Directors differ from those of the auditor in relation to the financial statements.

Having made appropriate enquiries and examined major areas which could give rise to significant financial exposures, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year, the Directors considered the Group has applied appropriate accounting policies consistently, made judgments and estimates that are reasonable in accordance with applicable accounting standards.

The responsibility of the Company's auditor, BDO Limited, is set out in the section headed "Independent Auditor's Report" on pages 54 to 127 of this annual report.

For the year ended 31 December 2019, the fees in respect of the audit services provided to the Group by BDO Limited, is set out as follows:

Nature of services	For the year ended 31 December 2019 RMB'000
Audit services	820

Risk Management and Internal Control

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board of Directors, the Audit Committee and the Senior Management. The Board of Directors determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted a Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management should identify risks that would adversely affect the achievement of the Group's objectives, and assess and prioritize the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners should then be established for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are to be identified and recommendations to be proposed for improvement. Significant internal control deficiencies should be reported to the Audit Committee and the Board of Directors on a timely basis to ensure prompt remediation actions are taken.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board of Directors had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board of Directors considers the Group's risk management and internal control systems are effective.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of Securities & Futures Ordinance ("**SFO**") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

Company Secretary

Mr. Chan Wing Kin, an Executive Director, is the Company Secretary of the Group. Please refer to his biographical details as set out on page 15 of this annual report.

For the year ended 31 December 2019, Mr. Chan has undertaken not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

Sufficiency of Public Float

Based on the information that is publicly available and within the knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by the public as at the date of this report.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting ("**AGM**") of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

Right to Convene EGMs and Procedures

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. Any one or more member(s) holding at the date of the deposit of the requisition not less than one tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong at 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong for the attention of the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

If within 21 days of such deposit, the Board fails to proceed duly to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All such enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Right to Put forward Proposals at General Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Companies Law (as revised) of the Cayman Islands, as amended, modified and supplemental from time to time.

However, pursuant to the Company's articles of association, Shareholders who wish to move a resolution may by means of requisitions convene an EGM following the procedures set out above.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Right to Propose a Person for Election as a Director

If a shareholder of the Company (the "**Shareholder**") wishes to propose a person other than a Director, for election as a new Director of the Company, the Shareholder must deposit a written notice (the "**Notice**") to the Company's principal place of business in Hong Kong at 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong for the attention of the Company Secretary of the Company.

The Notice must state clearly the name, the contact information of the Shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent (the "**Letter**") signed by the person proposed to be elected on his/her willingness to be elected as a Director.

The period for lodgment of the Notice and the Letter will commence no earlier than the day after the dispatch of the notice by the Company of the general meeting appointed for election of Directors and end no later than seven (7) days prior to the date of such general meeting.

The Notice will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the Nomination Committee of the Company and the Board of the Company to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the AGM, the annual and interim reports, notices, announcements and circulars and the Company's website at *www.lighting-hg.com*.

Dividend Policy

The Company has adopted a Dividend Policy in order to allow shareholders of the Company to participate in the Company's profits whilst preserving the Company's profits and liquidity to capture future growth opportunities.

Factors to Consider for a Dividend Proposal

Subject to the memorandum and articles of association of the Company and all applicable laws and regulations, the Board shall consider the following factors before declaring or recommending dividends:

(a) the Company's actual and expected financial performance;

(b) retained earnings and distributable reserves of the Company and each of the members of the Group;

(c) the Group's working capital requirements, capital expenditure requirements and future expansion plans;

(d) the Group's liquidity position;

(e) prevailing economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group;

(f) the restrictions on payment of dividends that may be imposed by the Group's lenders;

(g) dividends received/receivable from the Company's subsidiaries; and

(h) other factors that the Board may considered relevant.

Types of Dividends and Dividend Payment Ratio

Depending on the financial conditions of the Company and the Group and the conditions and factors set out in the preceding paragraph, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

The Company does not have any predetermined dividend payment ratio.

Constitutional Documents

During the year ended 31 December 2019, there had been no significant change in the Company's constitutional documents. The memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company presents this Environmental, Social and Governance ("**ESG**") Report (the "**Report**") for the year ended 31 December 2019 ("**Reporting Period**"), in accordance with the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules and based on the material aspects of the Group and stakeholders.

This Report serves to provide details of the Company's ESG policies and initiatives of its major operating segment in the People's Republic of China (the "**PRC**"), which is principally engaged in the design, development, manufacturing and sale of the LED beads and LED lighting products.

The Board of Directors has the overall responsibility for the Company's ESG strategy and reporting, monitoring and managing the ESG-related risks. The management is responsible for evaluating effectiveness of the ESG risk management and internal control systems and the management confirms that these systems are effective to mitigate our ESG-related risks. Assessment of ESG status and progress are conducted on an ongoing basis. To understand the concerns of various stakeholders, we have engaged and discussed with various business functions and management personnel, and identified the following materiality of the ESG issues to be included in this Report:

ESG Aspects	Material ESG issues
A. Environmental	
Emissions	Air emission, waste management, greenhouse gas emission
Use of resources*	Use of energy, use of packaging materials
The environment and natural resources	Noise pollution
B. Social	
Employment	Employment practices and equal opportunity
Health & safety	Workplace health and safety
Development and training	Staff development and training
Labor standards	Anti-child and forced labor
Supply chain management	Sustainable supply chain
Product responsibility	Products and services quality assurance, data privacy
Anti-corruption	Anti-corruption
Community investment	Supporting the community

* Remarks: Since water is not a primary input by the Company in our production process, hence disclosure on the water usage is not applicable.

A. Environmental

Emissions

In demonstrating our commitment to preserve the environment and to mitigate pollution, the Zhuhai HongGuang Production Plant has been accredited, since October 2017, with ISO 14001:2015 certification, an internationally recognised standard for an environmental management system, which aims at assisting organisations on identifying, managing, monitoring and controlling their environmental issues and complying with environmental laws, regulations and other applicable requirements, including but not limited to the Environmental Protection Law of the PRC and 廣東省地方標準《大氣污染物排放限值》(DB44/27-2001).

No material non-compliance case was noted in relation to environmental laws and regulations in Hong Kong and the PRC during the Reporting Period.

Air Emission

In our production activities, gases containing small amount of (i) benzene (ii) methylbenzene (iii) dimethylbenzene and (iv) volatile organic compounds ("**VOCs**") are generated.

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

Air Pollutant	Unit	Amount
Benzene	Kilogram	0.2
Methylbenzene & Dimethylbenzene	Kilogram	0.4
VOCs	Kilogram	3.54

The Group has installed a gas purifying system to control the amount of air pollutant emission from our production activities. Besides, we monitor the emission by engaging an independent test laboratory to perform regular tests on our emission concentration and emission speed of the abovementioned air pollutants to ensure that the amounts of emission are within the regulatory limits.

Hazardous and non-hazardous waste management

During the Reporting Period, hazardous waste such as waste organic solvent is generated. Non-hazardous waste from our production is considered not material by management personnel, hence disclosure on non-hazardous waste is not applicable.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

Waste	Unit	Amount
Waste organic solvent	Tonne	1.3

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

Greenhouse Gas Emission

The major sources of our greenhouse gases are from the use of energy resources. For example, indirect emission of carbon dioxide comes from our usage of electricity.

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

Greenhouse Gas	Unit	Amount
Carbon dioxide	Tonne	1,356

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

Use of Resources

The Company strives to improve environmental performance continuously, which is achieved by setting objectives on enhancing the efficiency of our production. The key areas of concern are the usage of electricity and packaging materials. The efficient uses of these resources are essential for enhancing the sustainability of the community.

In our production activities, the major type of energy consumed is electricity. The major types of packaging material used for finished products are cartoon boxes and antistatic bags.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

Type of Energy	Unit	Amount
Electricity	Kilowatt hour ("kWh") ('000s)	2,502

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

Type of Packaging Material	Unit	Amount
Cartoon box	Tonne	4.56
Antistatic bag	Tonne	3.97

In order to achieve the goal of effective energy conservation,《資源能源節約管理程序》has been established to define the responsible departments/personnel and relevant energy saving initiatives. For example, high energy efficiency lighting equipment such as LED lighting has been installed to replace traditional light bulbs. Proper behavioral measures are also communicated to employees for the effective implementation of resources saving initiatives. Records of electricity consumption have been maintained for evaluation of efficiency.

The Environment and Natural Resources

The Company is committed to minimizing the adverse environmental impacts arising from the production activities. To demonstrate our responsibility towards environmental conservation, we continuously monitor our impacts in accordance to our ISO 14001:2015 requirements. Significant risks are assessed and reviewed based on our established《環境因素識別評價控制程序》. We respond to these risks promptly with appropriate mitigating actions. We are committed to providing adequate and appropriate resources in reducing the adverse impacts to the environment.

During the production process, mild noise is generated by our machineries. The noise may cause undesirable nuisance to the surrounding neighbourhood. To mitigate the noise nuisance, we maintain our machineries regularly to ensure they function properly and noisy machineries are sited as far as possible from sensitive receivers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

B. Social

Employment

Employee is the foundation of success of the Company. It is the policy of the Company to maintain a working environment that complies with the Labour Law of the PRC, the Labour Contract Law of the PRC, the PRC Social Insurance Law and Regulations on Management of Housing Provident Fund.

We aim to provide a harmonious work environment for our employees through competitive remuneration packages that are comparable to the market standard and structured to commensurate with individual responsibilities, qualifications, experiences and performance. Annual review on staff performance is conducted and the appraisal result provides basis for salary review. We treasure staff who share the same values and aspirations with the Company, and provide adequate development opportunities accordingly.

The Company also believes that a good work-life balance can help to reduce the stress that staff are bearing, thereby increasing overall productivity. Working hours and leaves are determined in consideration of both the operation needs and the statutory requirements to ensure staff have sufficient rest and personal life.

Opportunities should be fairly given based on the performance of the employees. This belief is further enhanced by our equal opportunity statement, in which diversity of employee is respected on their personal characteristics, which include age, sex, nationality, disability and religion. No discrimination is tolerated, and employees should report suspected discrimination cases to the management.

Employee recruitment, dismissal, movement, compensation, working hours, rest periods, welfare, and other employment practices are clearly documented in the Human Resources Policy and Employee Handbook of the Company.

No material non-compliance case was noted in relation to employment laws and regulations in Hong Kong and the PRC during the Reporting Period.

Health and Safety

The Company realises that the health and safety of employees are of paramount importance and therefore, we make every effort to build and maintain a work environment which is free of workplace health and safety incidents and to comply fully with the Production Safety Law of the PRC and the Fire Control Law of the PRC.

The Company has published booklets on occupational health and safety for circulation to our employees to raise their awareness of occupational health and safety. We have also established a series of safety guidelines, rules and procedures for different aspects of our production activities, which include fire safety, warehouse safety, work-related injuries and emergency and evacuation procedures.

No material non-compliance case was noted in relation to health and safety laws and regulations in Hong Kong and the PRC during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Development and Training

As part of the Company's initiatives for improving business performance and encouraging personal development of our staff, the Company strives to provide various learning opportunities to our employees.

The Company has provided trainings across different operational functions, including induction training for new employees, technical training, and training to enhance the employees' knowledge in safety measures when performing their duties.

Labour Standards

The Company believes children should enjoy their childhood and be free from the pressure of work. Furthermore, no one should be forced to work by any means, such as abuse and physical punishment. No child and forced labour is accepted under our human resources practices. We ensure our employment practices are in compliance with the Labour Law of the PRC and the Labour Contract Law of the PRC. For example, our recruiters check identity cards of job applicants to ensure that under-aged applicant would not be accepted.

No material non-compliance case was noted in relation to child and forced labour laws and regulations in Hong Kong and the PRC during the Reporting Period.

Supply Chain Management

Suppliers have a direct impact on the Company's sustainability performance. To oversee suppliers' environmental and social performances, we strive to incorporate green practices in our procurement activities.

Suppliers' environmental and social performances, such as their choice of raw materials, use of natural resources, product health and safety, employment practices and occupational safety measures, are taken into account in our supplier selection process. On-going monitoring is also performed on their performance through our annual supplier appraisal.

Product Responsibility

Products and Services Quality Assurance

Continuous customer satisfaction and support are essential for our growth and profitability. We are committed to provide products and services that meet customer requirements and comply with regulations such as the Product Quality Law of the PRC and the Law of the PRC on the Protection of Consumer Rights and Interests. We deliver consistently high product quality by adopting internationally recognised standard on quality control practices, including the ISO 9001:2015, ISO 14001:2015 and IATF 16949:2016.

We have a team of quality control personnel, which is responsible to examine products at each key stage of production to ensure that the quality of the products can meet our internal standards and customers' requirements.

The Company values feedbacks from our customers for continuous improvement. The staff members of our sales and marketing team regularly pay visits to and communicate with our customers to collect their feedback on the quality, preferences, improvements and market demands of our products. Our sales and marketing team shares this information with our Production Team and the Research and Development Team in order to improve our products and/or services.

Data Privacy

The Company has implemented certain internal control measures to ensure the confidentiality of our operation data so as to protect our suppliers, business partners, customers and ourselves. The Company's employment contract and Code of Conduct section in the Employee Handbook, clearly define the requirements in protecting company data, for example general staff is not allowed to photocopy Company documents without prior management approval. Staff are required to strictly adhere to the Company's Data Privacy Policy, and any acts which will breach data confidentiality are prohibited.

No material non-compliance case was noted in relation to product and service quality laws and regulations in Hong Kong and the PRC during the Reporting Period.

Anti-corruption

Corruption, bribery, money-laundering, and any other kinds of business fraud are strictly prohibited in the Company. The Company closely observes the relevant laws and regulations such as the Prevention of Bribery Ordinance in Hong Kong. Employees and the management must demonstrate integrity in every business operation, with reference to the Code of Conduct section in the Employee Handbook established by the Company. No tolerance is given to fraud.

To enhance the governance of the Company, internal controls are established in mitigating the risk of frauds. Policy is established to govern investigation and follow-up procedures of reported fraud incidents. The management is responsible for developing and ensuring the effectiveness of internal controls. Any abnormality should be reported to the management for investigation. Whistle-blowing channel has also been established for the reporting of violations of professional conducts.

No material non-compliance case was noted in relation to business fraud laws and regulations in Hong Kong and the PRC during the Reporting Period.

Community Investment

The Company cares about the community, and is willing to give our helping hands to the needy in order to promote the harmony and stability of the society. The management is aware of the needs of the society, and seek every any opportunity to enhance the sustainability of the community, such as regular social welfare activities. The Company donated HK$1,000,000 to The Community Chest of Hong Kong during the Reporting Period.

DIRECTORS' REPORT

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2019 (the "**Year**" or "**2019**").

Principal Activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements.

Business Review

Further discussion and analysis of these activities, including a business review of the Group for the Year, can be found in the Management Discussion and Analysis as set out on pages 6 to 14 of this annual report. These discussions form part of this Directors' report.

Results

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statements of profit or loss and other comprehensive income on page 59.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

Financial Summary

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 128. The summary does not form part of the audited consolidated financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year under review are set out in the consolidated statements of changes in equity on page 62 and note 27 to the consolidated financial statements, respectively.

Property, Plant and Equipment

Details of movements of the property, plant and equipment of the Group during the Year are set out in note 15 to the consolidated financial statements.

DIRECTORS' REPORT (CONTINUED)

Share Capital

Details of the movements during the Year in the share capital of the Company are set out in note 26 to the consolidated financial statements.

Charitable Donations

Total donations made by the Group for charitable and other purposes during the Year amounted to HK$1,000,000 (Previous Year: nil).

Purchase, Sales or Redemption of the Company's Listed Securities

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Distributable Reserves of the Company

Pursuant to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and retained profits of the Company are distributable to the shareholders. As at 31 December 2019, the Company's reserves available for distribution to the shareholders of the Company amounted to approximately RMB21.6 million.

Major Customers and Suppliers

For the year ended 31 December 2019, the largest customer accounted for approximately 18.1% (2018: approximately 21.4%) of the total revenue. For the year ended 31 December 2019, the percentage of revenue derived from the five largest customers in aggregate was approximately 59.2% (2018: approximately 68.6%).

For the year ended 31 December 2019, the largest supplier accounted for approximately 34.2% (2018: approximately 39.2%) of the total purchases. For the year ended 31 December 2019, the five largest suppliers in aggregate accounted for approximately 87.8% (2018: approximately 86.3%) of the total purchases.

None of the Directors, their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had an interest in any of the Group's five largest customers and suppliers during the year ended 31 December 2019.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group.

Reliance on Downstream LED Lighting Industry Risk

The Group's LED beads are mainly used for onward production of small or medium-sized backlight LED products, which have end-use applications such as displays in smartphones and LCD panels in tablet computers, etc. As such, the results of operations and financial performance of the Group are dependent upon the prospects of these downstream industries.

The business of the Group relies on the LED lighting industry and consumer electronics market as the Group's customers are generally manufacturers of small and medium-sized backlight LED modules/panel generally for the displays in smartphones and LCD panels of tablet computers and manufacturers of other electronics products. The demand from the customers is therefore dependent on the demand and supply dynamics of the consumer electronics market and the LED lighting industry. As such, the demand for the Group's LED beads may fluctuate according to the cycles of the consumer electronics market and the LED lighting industry.

The demand for the Group's LED beads is also affected by the business performance of the customers and/or their ultimate retail customers, which is beyond control of the Group. The customers' business could underperform due to a number of factors, such as changes in their business strategies, failure to develop successful marketing strategies, changes in the market demand for their products and adverse market or economic conditions in the markets in which the customers operate. If the customers experience underperformance or are under financial difficulties, they could reduce their purchase from the Group, which could have a material and adverse impact on the business, results of operations, financial conditions and prospect of the Group.

Technological Risk

The LED lighting industry in which the Group operates is characterised by rapid changes and advancements in technology. With technology advancement, the LED beads and LED lighting products the Group offers to the market may become obsolete. If the Group is not able to respond to the rapid changing trends in the LED lighting market and introduce new products on a timely basis, the Group's performance in the future would be adversely affected. In addition, new technological developments often bring price declines and decreasing profit margins for both LED beads and LED lighting products which risk driving the Group's results downwards.

Intense Competition Risk

The Group may face fierce competition in terms of technologies and product prices not only in the PRC but also in other countries or regions, such as Japan, Korea and Taiwan. The ability of the Group to compete also depends on a number of factors which may be beyond its control, including the price of the comparable products offered by the Group's competitors in the market and the Group's responsiveness to changes of customers' needs.

Owing to the intense competition in the LED lighting industry in which the Group operates, it cannot assure that the selling prices of certain products are free from downward pressure. In the event that the Group's competitors lower their products' prices, the Group might follow their act in order to maintain its market share, competitiveness, or to lower the inventory level.

DIRECTORS' REPORT (CONTINUED)

As new competitors enter into the industry, the Group may not be able to maintain or expand the sales of its LED beads or expand the sales of its LED lighting products or continue to compete effectively against current and future competitors. There is no assurance that the Group's attempts to remain competitive in the market will succeed. If such attempts to remain competitive fail and the Group's market share shrinks, the overall performance of the Group may be adversely affected.

Environmental Policy

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure the compliance of prevailing environmental protection laws and regulations.

The Group has been accredited, since October 2017, with ISO 14001:2015 certification, an internationally recognised standard for an environmental management system, which aims at assisting organisations on identifying, managing, monitoring and controlling their environmental issues. Please refer to ESG Report for details.

Compliance with Relevant Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the Main Board. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2019 and up to the date of this report, the Group has complied with the relevant laws and regulations in the PRC and Hong Kong in all material respects.

Key Relationships

Employees

The Company recognises that employees are valuable assets. Thus the Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Suppliers

The Group selects suppliers based on a number of criteria including but not limited to their product quality, pricing, supply capability and business track record with the Group. The Directors take the view that due to their experience in the LED lighting industry, they strive to safeguard the safety and quality of the Group's production materials. Hence, the Directors are capable of identifying suitable suppliers based on the aforesaid criteria. The Group regularly conducts on-site inspections of the suppliers' production facilities, reviews their background information and licences, including their business licence(s) and requisite certifications. As such, the Group has compiled and maintained a list of approved suppliers. These suppliers or any one of them would be removed from the list should they fail to satisfy the Group's quality and service requirements upon periodic review by the Group's production team and quality control team.

Customers

During the Year, the Group sold LED beads and LED lighting products directly to its customers predominantly in the Guangdong Province, which comprise manufacturers of small-sized and medium-sized backlight LED modules/panels, LCD panels and other electronics products and a trading company in the PRC.

The Group stays connected with its customers and has ongoing communication with the customers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

Directors

The Directors during the year under review and up to the date of this report were as follows:

Executive Directors
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*
Mr. Lin Qi Jian
Mr. Chan Wing Kin

Non-executive Director
Mr. Chiu Kwai San

Independent Non-executive Directors
Professor Chow Wai Shing, Tommy
Mr. Wu Wing Kuen, *B.B.S.*
Mr. Chan Chung Kik, Lewis

Pursuant to the Company's memorandum and articles of association, Mr. Zhao Yi Wen, Mr. Wu Wing Kuen, *B.B.S.* and Mr. Chan Chung Kik, Lewis will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' REPORT (CONTINUED)

Directors' Service Contracts

Each of the Executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing, which will continue thereafter but subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the service contract.

The Non-executive Director has entered into a letter of appointment with the Company for a term of two years commencing from 2 December 2016, which will continue thereafter but subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the letter of appointment.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of two years commencing from 2 December 2018, subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the letter of appointment.

Save as disclosed above, none of the Directors has or is proposed to enter into a service contract or letter of appointment with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Group within one year without the payment of compensation (other than statutory compensation)).

Directors' Interests in Contracts

Save for the related party transactions disclosed in note 32 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, or holding company was a party and in which a Director or an entity connected with a Director had a material interests, whether directly or indirectly, subsisted during or at the end of the Year.

Independent Non-executive Directors

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 under the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

Management Contracts

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

Directors' Rights to Acquire Shares or Debentures

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective associates, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Emolument Policy for Directors

The Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group. The remunerations of the Directors are determined with reference to market terms, seniority, experiences, duties and responsibilities assumed by each Director as well as their individual performance.

Non-competition Undertakings

Each of Mr. Zhao Yi Wen, Mr. Lin Qi Jian, Mr. Chiu Kwai San, First Global Limited, Star Eagle Enterprises Limited, Bigfair Enterprises Limited (each of them, a "**Covenantor**" and collectively, the "**Covenantors**") has entered into a Deed of Non-Competition on 2 December 2016 in favour of the Company (for itself and as trustee for and on behalf of its subsidiaries). In accordance with the Deed of Non-Competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (i) the date on which the Shares cease to the listed on the Stock Exchange; or (ii) the date on which the Covenantors cease to a Controlling Shareholder, he/it will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates (collectively, the "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (the "**Controlled Company**") not, either on his/its own or in conjunction with or on behalf of any person, firm or any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, among other things, carry on, participate or be interested in, hold any right or interest (in each case whether as an investor, a shareholder, principal, partner, director, employee, consultant, urgent, or otherwise and whether for profit, reward, interest or otherwise), engage in, acquire or otherwise be involved in any business which is or may be in competition, whether directly or indirectly, with the business carried on or contemplated to be carried on by the Company or any of our subsidiaries in Hong Kong, the PRC and such other places as the Company or any of our subsidiaries may conduct or carry on business from time to time in the future, including but not limited to the design, development, manufacturing and sales of LED beads, LED lighting products and/or related products (the "**Restricted Business**"). Details of the Non-competition Deed are set out in the paragraph headed "Non-Competition Undertaking" in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company dated 16 December 2016.

Competing Interests

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders of the Company nor any of their respective close associates (as defined under the Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the period from the date of the Listing to 31 December 2019.

DIRECTORS' REPORT (CONTINUED)

Share Option Scheme

The Company's share option scheme (the "**Share Option Scheme**") was conditionally approved by the Company pursuant to the written resolutions of the then all shareholders of the Company dated 2 December 2016. The Share Option Scheme remains valid and effective following the transfer of listing of the Company's shares from the GEM to the Main Board on 13 November 2019 and is implemented in full compliance with the requirements under Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the Share Option Scheme:

(1) Purpose of the Share Option Scheme

The Share Option Scheme enables the Company to grant options (the "**Options**") to any full-time or part-time employee of the Company or any member of the Group, including any Executive, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of the Company or any of its subsidiaries (the "**Eligible Persons**") as incentives or rewards for their contributions to the Group.

(2) Who may join

The Board may, at its discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (3) below. Upon acceptance of the Option, the Eligible Person shall pay HK$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of not less than 5 trading days from the date on which the Option is granted.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the Independent Non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(3) Price of shares of the Company (the "Share(s)")

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board and notified to a participant and shall be the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

(4) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

(5) Maximum number of Shares

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group) must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date. The Company may refresh this limit at any time, subject to the shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for such purpose, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Group) previously granted under the Share Option Scheme and any other share option schemes of the Group will not be counted. The above is subject to the condition that the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group shall not exceed 30% of the Share Capital of the Company in issue from time to time.

(6) Maximum entitlement of each Eligible Person

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. In such event, the Company must send a circular to the shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(7) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(8) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

DIRECTORS' REPORT (CONTINUED)

Disclosure of Interests

Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of the group and its associated corporations

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares (the "**Shares**"), underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity/Nature of interest	Number of issued ordinary shares interested	Percentage of the issued share capital of the Company
Mr. Zhao Yi Wen (Note 2, 5)	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%
Mr. Lin Qi Jian (Note 3, 5)	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%
Mr. Chiu Kwai San (Note 4, 5)	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%

Notes:

1. The letter "L" denotes a long position.

2. The aggregate 300,000,000 Shares in which Mr. Zhao Yi Wen is interested consist of (i) 100,500,000 Shares held by First Global Limited, accompany wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Zhao Yi Wen is deemed to be interested as a result of being a party acting-in-concert with Mr. Lin Qi Jian and Mr. Chiu Kwai San.

3. The aggregate 300,000,000 Shares in which Mr. Lin Qi Jian is interested consist of (i) 100,500,000 Shares held by Star Eagle Enterprises Limited, accompany wholly owned by Mr. Lin Qi Jian, in which Mr. Lin Qi Jian is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Lin Qi Jian is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Chiu Kwai San.

4. The aggregate 300,000,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, accompany wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; and (ii) 201,000,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.

5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

The interests of substantial shareholders and the interests and short position of other persons in the shares and underlying shares

As at 31 December 2019, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Name	Capacity/Nature of interest	Number of issued ordinary shares interested	Percentage of the issued share capital of the Company
First Global Limited (Note 2, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%
Star Eagle Enterprises Limited (Note 3, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%
Bigfair Enterprises Limited (Note 4, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%
Ms. Zhuang Chan Ling (Note 6)	Interest of spouse	300,000,000 (L)	75.00%
Ms. Xie Wan (Note 7)	Interest of spouse	300,000,000 (L)	75.00%
Ms. Wong Ching Ming (Note 8)	Interest of spouse	300,000,000 (L)	75.00%

Notes:

1. The letter "L" denotes a long position.

2. The aggregate 300,000,000 Shares in which Mr. Zhao Yi Wen is interested consist of (i) 100,500,000 Shares held by First Global Limited, accompany wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Zhao Yi Wen is deemed to be interested as a result of being a party acting-in-concert with Mr. Lin Qi Jian and Mr. Chiu Kwai San.

3. The aggregate 300,000,000 Shares in which Mr. Lin Qi Jian is interested consist of (i) 100,500,000 Shares held by Star Eagle Enterprises Limited, accompany wholly owned by Mr. Lin Qi Jian, in which Mr. Lin Qi Jian is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Lin Qi Jian is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Chiu Kwai San.

DIRECTORS' REPORT (CONTINUED)

4. The aggregate 300,000,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, accompany wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; and (ii) 201,000,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.

5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

6. Ms. Zhuang Chan Ling is the spouse of Mr. Zhao Yi Wen and is deemed, or taken to be, interested in the Shares in which Mr. Zhao Yi Wen has interest under the SFO.

7. Ms. Xie Wan is the spouse of Mr. Lin Qi Jian and is deemed, or taken to be, interested in the Shares in which Mr. Lin Qi Jian has interest under the SFO.

8. Ms. Wong Ching Ming is the spouse of Mr. Chiu Kwai San and is deemed, or taken to be, interested in the Shares in which Mr. Chiu Kwai San has interest under the SFO.

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

Exempted Continuing Connected Transaction

During the year ended 31 December 2019, the Group entered into certain transactions with "related parties" as defined under the application accounting standards and the details of the material related party transactions (the "**Transactions**") are disclosed in note 32 to the consolidated financial statements of this annual report.

The Transactions falls under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules, but are fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The Directors (including the Independent Non-executive Directors) confirmed that the Transactions have been entered into in the ordinary and usual course of business of the Group and have been based on arm's length negotiations and on normal commercial terms that are fair and reasonable, and in the interests of the shareholders as a whole.

Corporate Governance

Details of the corporate governance practice adopted by the Company are set out on pages 19 to 33 of this annual report.

Audit Committee

The audited financial statements of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2019 comply with applicable accounting standards, Listing Rules and that adequate disclosures have been made.

Auditor

The consolidated financial statements for the year ended 31 December 2019 have been audited by BDO Limited, who will retire, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

By order of the Board
HongGuang Lighting Holdings Company Limited
Zhao Yi Wen
Chairman and Executive Director

Hong Kong, 27 March 2020

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF HONGGUANG LIGHTING HOLDINGS COMPANY LIMITED
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of HongGuang Lighting Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 59 to 127 which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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 judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Impairment assessment of trade and bills receivables

Refer to note 18 to the consolidated financial statements and the accounting policies on note 4(d)(ii).

As at 31 December 2019, the Group's gross trade and bills receivables balance amounted to approximately RMB140,684,000, of which approximately RMB3,087,000 were past due for more than 120 days. The collectability of the Group's trade and bills receivables and the valuation of the impairment of trade and bills receivables is a key audit matter due to the judgment involved.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the Directors' impairment assessment included:

— Assessing the methodologies and inputs adopted by the management of the Group in estimating the expected credit losses of trade receivables.

— Reviewing subsequent settlements of the trade and bills receivables; and

— Reviewing the repayment history and credit worthiness of the Group's debtors.

Inventory provision

Refer to note 17 to the consolidated financial statements and the accounting policies on note 4(e).

As at 31 December 2019, the inventories balance held by the Group amounted to approximately RMB23,387,000. The risk over the carrying values of inventories is considered a significant audit risk due to the technological obsolescence of light-emitting diode ("LED") beads over time and the judgement therefore made in assessing the recoverability of their carrying values.

How Our Audit Addressed the Key Audit Matter

Our audit procedures in relation to the Directors' provision assessment included:

— Corroborating on a sample basis that items on the inventory aging listing were classified in the appropriate aging analysis;

— Reviewing the inventories movement of the LED beads by product type and identifying any slow moving items;

— Reviewing the subsequent usages and sales of the inventory items; and

— Checking on sample basis whether there were inventories that were sold with a negative margin after the year ended.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information in the Annual Report

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

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

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

The Directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the Directors in discharging their responsibility in this regard.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate Number: P05443

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	7	**243,260**	203,747
Cost of sales		**(182,996)**	(155,899)
Gross profit		**60,264**	47,848
Other income and gains	7	**832**	183
Selling and distribution expenses		**(1,960)**	(1,088)
Administrative and other expenses		**(34,014)**	(19,210)
(Provision on)/reversals of expected credit losses on trade and bills receivables		**(1,588)**	1,303
Finance costs	9	**(456)**	—
Profit before income tax expense	8	**23,078**	29,036
Income tax expense	12	**(5,800)**	(5,140)
Profit for the year attributable to owners of the Company		**17,278**	23,896
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**108**	689
Total comprehensive income for the year attributable to owners of the Company		**17,386**	24,585
Earnings per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	13	**4.32**	5.97

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**31,951**	16,349
Intangible assets	16	**1,580**	2,262
Prepayments and deposits	19	**195**	931
Deferred tax assets	25	**198**	466
		33,924	20,008
Current assets			
Inventories	17	**23,387**	16,664
Trade and bills receivables	18	**137,180**	94,351
Prepayments, deposits and other receivables	19	**8,130**	7,282
Financial assets at fair value through profit or loss	20	**13,190**	6,905
Pledged bank deposits	21	**—**	3,960
Bank balances and cash	21	**30,285**	49,778
		212,172	178,940
Current liabilities			
Trade and bills payables	22	**45,648**	40,260
Other payables and accruals	23	**14,794**	6,547
Bank borrowings	24	**12,850**	—
Lease liabilities	28	**1,858**	—
Current tax liabilities		**1,195**	1,931
		76,345	48,738
Net current assets		**135,827**	130,202

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Lease liabilities	28	**2,155**	—
		2,155	—
Net assets		**167,596**	150,210
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**3,580**	3,580
Reserves	27	**164,016**	146,630
Total equity		**167,596**	150,210

On behalf of the Directors

Zhao Yi Wen
Director

Lin Qi Jian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital RMB'000 (note 26)	Share premium RMB'000 (note 27(a))	Statutory reserve RMB'000 (note 27(b))	Other reserve RMB'000 (note 27(c))	Capital reserve RMB'000 (note 27(d))	Exchange reserve RMB'000 (note 27(e))	Retained earnings RMB'000 (note 27(f))	Total RMB'000
At 1 January 2018	3,580	46,162	7,419	580	35,972	(5,507)	37,419	125,625
Profit for the year	—	—	—	—	—	—	23,896	23,896
Exchange differences on translating foreign operations	—	—	—	—	—	689	—	689
Total comprehensive income for the year	—	—	—	—	—	689	23,896	24,585
Transfer to statutory reserve	—	—	3,061	—	—	—	(3,061)	—
At 31 December 2018 and 1 January 2019	3,580	46,162	10,480	580	35,972	(4,818)	58,254	150,210
Profit for the year	—	—	—	—	—	—	17,278	17,278
Exchange differences on translating foreign operations	—	—	—	—	—	108	—	108
Total comprehensive income for the year	—	—	—	—	—	108	17,278	17,386
Transfer to statutory reserve	—	—	3,287	—	—	—	(3,287)	—
At 31 December 2019	3,580	46,162	13,767	580	35,972	(4,710)	72,245	167,596

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Profit before income tax		**23,078**	29,036
Adjustments for:			
Depreciation of property, plant and equipment	8	**4,634**	3,284
Amortisation of intangible assets	8	**682**	682
Interest income	7	**(660)**	(77)
Finance costs	9	**456**	—
Provision on/(reversals of) expected credit losses on financial asset		**1,588**	(1,303)
Operating profit before working capital changes		**29,778**	31,622
Increase in inventories		**(6,723)**	(606)
Increase in trade and bills receivables		**(44,417)**	(5,937)
Increase in prepayments and other receivables		**(112)**	(3,786)
Increase in trade and bills payables and other payables		**13,635**	29,019
Cash (used in)/generated from operations		**(7,839)**	50,312
Income tax paid		**(6,268)**	(3,524)
Net cash (used in)/generated from operating activities		**(14,107)**	46,788
Cash flows from investing activities			
Purchases of property, plant and equipment		**(15,238)**	(1,687)
Proceeds from settlement of financial assets at fair value through profit or loss on maturity		**6,905**	—
Purchase of financial assets at fair value through profit or loss		**(13,190)**	(6,905)
Interest received		**660**	77
Decrease/(increase) in pledged deposit		**3,960**	(3,960)
Net cash flows used in investing activities		**(16,903)**	(12,475)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
Cash flows from financing activities			
Repayment to a director		**—**	(832)
Interest paid		**(456)**	—
Proceed from bank borrowings		**12,850**	—
Repayments of principal portion of the lease liabilities		**(920)**	—
Net cash flows generated from/(used in) financing activities		**11,474**	(832)
Net (decrease)/increase in cash and cash equivalents		**(19,536)**	33,481
Effect of exchange rate changes on cash and cash equivalents		**43**	482
Cash and cash equivalents as at the beginning of the year		**49,778**	15,815
Cash and cash equivalents as at the end of the year		**30,285**	49,778

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. General and Corporate Information

HongGuang Lighting Holdings Company Limited (the "Company") was incorporated with limited liability in the Cayman Islands on 27 May 2015. The shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 December 2016 with stock code "8343" and have been transferred from the GEM to the Main Board of the Stock Exchange on 13 November 2019 with stock code "6908".

The address of the Company's registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company and its subsidiaries (collectively referred to as the "Group") is located in the People's Republic of China (the "PRC") at the North Side, 2nd Floor, No. 8 Pinggong Er Road, Nanping Technology Industrial Park, Zhuhai, the PRC.

The Company's principal activity is investment holding. The Group is principally engaged in the design, development, manufacturing, subcontracting service and sales of light-emitting diode ("LED") beads and LED lighting products in the PRC.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015–2017	Amendments to HKFRS 3 Business Combinations Amendments to HKFRS 11 Joint Arrangements Amendments to HKAS 12 Income Taxes Amendments to HKAS 23 Borrowing Costs

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases — incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 January 2019.

Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using the lessee's incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates as at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.35%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(b) Transitional impact (Continued)

The following table reconciles the operating lease commitment as disclosed in note 28 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitment as at 31 December 2018	**2,436**
— rental adjustment (note)	**(116)**
Less: total future interest expenses	**(285)**
Present value of remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019	**2,035**
Add: finance lease liabilities recognised as at 31 December 2018	**—**
Total lease liabilities recognised as at 1 January 2019	**2,035**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as at 1 January 2019 at an amount equal to the lease liabilities recognised as at 1 January 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

Note: The rental adjustment represented the effect of the change in value-added tax rate in 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(b) Transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount as at 31 December 2018	**Capitalisation of operating lease contracts**	**Carrying amount as at 1 January 2019**
	RMB'000	RMB'000	RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	16,349	2,035	18,384
Total non-current assets	20,008	2,035	22,043
Lease liabilities (current)	—	290	290
Current liabilities	48,738	290	49,028
Net current assets	130,202	(290)	129,912
Total assets less current liabilities	150,210	1,745	151,955
Lease liabilities (non-current)	—	1,745	1,745
Total non-current liabilities	—	1,745	1,745
Net assets	150,210	—	150,210

The analysis of the net book value of the Group's right-of-use assets by class is rental premises leased for own use at the end of the reporting period and at the date of transition to HKFRS 16.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	As at 31 December 2019		As at 1 January 2019	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**1,858**	**2,038**	290	371
After 1 year but within 2 years	**1,028**	**1,102**	302	371
After 2 years but within 5 years	**1,035**	**1,113**	991	1,114
After 5 years	**92**	**93**	452	464
	2,155	**2,308**	1,745	1,949
	4,013	**4,346**	2,035	2,320
Less: total future interest expenses		**(333)**		(285)
Present value of lease liabilities		**4,013**		2,035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in no material impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(d) Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019				2018
	Amounts reports under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B+C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	23,534	326	(371)	23,489	29,036
Finance costs	(456)	81	—	(375)	—
Profit before taxation	23,078	407	(371)	23,114	29,036
Profit for the year	17,278	407	(371)	17,314	23,896

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(d) Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under HKFRS 16 (A) RMB'000	**Estimated amounts related to operating leases as if under HKAS 17 (B) RMB'000**	**Hypothetical amount for 2019 as if under HKAS 17 (C=A+B) RMB'000**	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash (used in)/generated from operations	**(7,839)**	**(1,001)**	**(8,840)**	50,312
Net cash (used in)/generated from operating activities	**(14,107)**	**(1,001)**	**(15,108)**	46,788
Capital element of lease rentals paid	**(920)**	**920**	**—**	—
Interest element of lease rentals paid	**(81)**	**81**	**—**	—
Net cash generated from/(used in) financing activities	**11,474**	**1,001**	**12,475**	(832)

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

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

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

Amendments to HKAS 19 — Plan amendments, curtailment or settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to HKAS 28 — Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015–2018 Cycle — Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2018 Cycle — Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

Annual Improvements to HKFRSs 2015–2018 Cycle — Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015–2018 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020

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

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

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

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

Amendments to HKFRS 3 — Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The Directors anticipate the application of Amendments to HKFRS 3 have no impact to the Group.

Amendments to HKAS 1 and HKAS 8 — Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

The Directors anticipate the application of Amendments to HKAS 1 and HKAS 8 have no impact to the Group.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 — Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Directors anticipate the application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 have no impact as the Group do not have any hedge arrangement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

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

HKFRS 17 — Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

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

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Directors anticipate the application of Amendments to HKFRS 10 and HKAS 28 have no impact as the Group do not have associate or joint venture.

3. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for the financial assets at fair value through profit or loss, which are measured at fair value as explained in the accounting policies below.

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

4. Significant Accounting Policies

(a) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of property, plant and equipment includes its purchase price and the cost directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Property	Over the shorter of lease term or useful life
Machinery and equipment	3–10 years, over the commencement date of the lease term to the end of the useful life
Motor vehicles	5 years
Furniture, fixtures and office equipment	2–5 years
Leasehold improvement	10 years, over the shorter of lease term or useful life

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. Significant Accounting Policies (Continued)

(c) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of sales. Amortisation is provided on a straight-line basis over their useful lives as follows:

Patent sublicense	Over the shorter of lease term or useful life
Computer Software	Over the shorter of lease term or useful life

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

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

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

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

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

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

(iii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 4(i)).

4. Significant Accounting Policies (Continued)

(c) Intangible assets (Continued)

(iii) Impairment (Continued)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in the income statement immediately.

(d) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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 market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group's investments in debt instruments are categories as follows:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(i) Financial assets (Continued)

Debt instruments (Continued)

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at FVTPL 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, not designated as effective hedging instruments and financial assets that include embedded derivatives, are also classified as at FVTPL. 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.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit losses ("ECLs") on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and bills receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is long overdue with occasional sales and non-response to collection activities.

The Group considers a financial asset to be in default when: (1) there is a breach of financial covenants by the counterparty; (2) the exposure is past due for more than 90 days; or (3) the debtor is unlikely to pay in full for the credit obligations to the Group.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities 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. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(iii) Financial liabilities (Continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables and borrowings, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECLs provision measured in accordance with principles of the accounting policy set out in 4(d)A(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(e) Inventories

Inventories are initially recognised at cost, and subsequently valued at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

(f) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(g) Revenue recognition

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, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

4. Significant Accounting Policies (Continued)

(g) Revenue recognition (Continued)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

— provides all of the benefits received and consumed simultaneously by the customer;

— creates or enhances an asset that the customer controls as the Group performs; or

— does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

(a) Sales of goods

Customers obtain control of the LED beads/LED lighting products when the goods are delivered to and have been accepted by customers. Revenue is thus recognised at a particular point in time upon when the customers accepted the LED beads/LED lighting products. There is generally only one performance obligation. Invoices are usually payable within 30 to 90 days, extending up to 120 days for major customers.

No element of financing is deemed present as the revenue are generally made with a credit term from 30 to 90 days, extending up to 120 days for major customers, which is consistent with market practice.

(b) Subcontracting service

The Group provides assembly services of the materials provided by client. Revenue is thus recognised as a performance obligation satisfied overtime as the Group creates or enhances an asset that the customer controls when the Group provides subcontracting service. Revenue is recognised for these subcontracting service based on the stage of completion of the contract using input method.

The Group doesn't have control over the major materials in performing the assembly services. Thus, the Group recognises the subcontracting service revenue on net basis.

(c) Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. Significant Accounting Policies (Continued)

(h) Leasing

A. Accounting policies applied from 1 January 2019

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset is recognised at cost and comprises: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

4. Significant Accounting Policies (Continued)

(h) Leasing (Continued)

A. Accounting policies applied from 1 January 2019 (Continued)

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

B. Accounting policies applied until 31 December 2018

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(i) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment and right-of-use asset; and
- Intangible assets.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. Significant Accounting Policies (Continued)

(j) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the relevant period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of each reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to minority interests as appropriate).

Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

(k) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

4. Significant Accounting Policies (Continued)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

(m) Income tax expense

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they related to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(n) Employee benefits

(i) Pension scheme

The subsidiaries established and operating in the PRC are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. Significant Accounting Policies (Continued)

(n) Employee benefits (Continued)

(ii) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Company's parent.

4. Significant Accounting Policies (Continued)

(p) Related parties (Continued)

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

5. Key Sources of Estimation Uncertainty (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Inventory value is reduced when the decision to markdown below cost is made.

(ii) Impairment of trade and other receivables

The Group makes allowances for receivables based on assumptions about risk of default and expected loss rates. The Group used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates as at year ended date.

The Group's management reassesses the impairment of receivables as at the year ended date. Where the expectation is different from the original estimate, such differences will affect the carrying value of receivables and thus the impairment loss in the year in which such estimate is changed.

6. Segment Information

The chief operating decision makers are identified as Executive Directors of the Company. The Group has identified its operating segment based on the regular internal financial information reported to the Company's Executive Directors for their decisions about resources allocation and review of performance. The Executive Directors have considered the only operating segment of the Group is design, development, manufacturing, subcontracting service and sales of LED beads and LED lighting products.

No geographical information is presented as most of the Group's operations are located in the PRC.

Revenue from customers who contributed over 10% of the Group's revenue for the corresponding years are as follows:

	2019 RMB'000	2018 RMB'000
Client A	**43,905**	43,685
Client B	**43,622**	31,550
Client C	**22,068**	29,197
Client D	**20,690**	24,565

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

7. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, less discounts, returns, value added tax and other applicable local taxes during the year. The principal activities of the Group are sale of the LED beads and LED lighting products and subcontracting service.

The sales contract terms not allow rebate, discount, warranties and return on revenue. During the years ended 31 December 2019 and 2018, there is no rebate, discount, warranties and return on revenue.

An analysis of the Group's revenue, other income and gains are as follows:

	2019 **RMB'000**	2018 RMB'000
Revenue recognised at a particular point in time		
Sales of LED beads	**234,980**	198,392
Sales of LED lighting products	**6,299**	5,355
Revenue recognised overtime		
Subcontracting service	**1,981**	—
	243,260	203,747
Other income and gains		
Bank interest income	**660**	77
Government grants (Note)	**172**	106
	832	183

Note: The amount represents the government subsidy received for the Group's technology advancement with no condition during the year.

The following table provides information about trade and bills receivables after ECLs from contracts with customers.

	2019 **RMB'000**	2018 RMB'000
Receivables	**137,180**	94,351

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

8. Profit Before Income Tax Expense

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

	2019 RMB'000	2018 RMB'000
Cost of inventories sold	**183,802**	155,899
Depreciation charge (note 15):		
— Owned property, plant and equipment	**3,826**	3,284
— Right-of-use-assets included within (note (i)):		
— Property	**325**	—
— Machinery	**483**	—
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**—**	388
Amortisation of intangible assets, included in cost of sales	**682**	682
Auditors' remuneration	**875**	799
Research and development costs, included in administrative and other expenses	**14,046**	10,025
Interest on lease liabilities	**147**	—
Employee costs (including Directors' remuneration) (note 10)		
— Wages, salaries and other benefits	**7,878**	7,018
— Contribution to defined contribution pension plans	**1,267**	924
Listing expenses (note (ii))	**9,055**	—
Exchange gain, net	**(39)**	(88)

Note:

(i) The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets is also identified as right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. See note 2(a).

(ii) During the year ended 31 December 2019, the listing expenses are expenses related to the board transfer from GEM to Main Board of the Stock Exchange for the Group's listed shares.

9. Finance Costs

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	**309**	—
Interest on lease liabilities	**147**	—
	456	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

10. Directors' Remuneration

Directors' emoluments are disclosed as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to defined contribution pension plans RMB'000	Total RMB'000
Year ended 31 December 2019				
Executive Directors:				
Mr. Zhao Yi Wen	**317**	**89**	**12**	**418**
Mr. Lin Qi Jian	**211**	**89**	**12**	**312**
Mr. Chan Wing Kin	**—**	**634**	**16**	**650**
Non-executive Director:				
Mr. Chiu Kwai San	**106**	**—**	**—**	**106**
Independence Non-executive Directors:				
Professor Chow Wai Shing, Tommy	**106**	**—**	**—**	**106**
Mr. Wu Ming Kuen, *B.B.S.*	**106**	**—**	**—**	**106**
Mr. Chan Chung Kik, Lewis	**106**	**—**	**—**	**106**
Total	**952**	**812**	**40**	**1,804**
Year ended 31 December 2018				
Executive Directors:				
Mr. Zhao Yi Wen	304	88	8	400
Mr. Lin Qi Jian	203	88	7	298
Mr. Chan Wing Kin	—	608	15	623
Non-executive Director:				
Mr. Chiu Kwai San	101	—	—	101
Independence Non-executive Directors:				
Professor Chow Wai Shing, Tommy	101	—	—	101
Mr. Wu Ming Kuen, *B.B.S.*	101	—	—	101
Mr. Chan Chung Kik, Lewis	101	—	—	101
Total	911	784	30	1,725

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

11. Five Highest Paid Individuals

The five highest paid individuals of the Group for the year included 3 (2018: 3) Directors whose emoluments are reflected in the disclosures in Note 10. The emoluments of the remaining 2 (2018: 2) highest paid individuals for the year are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**117**	114
Performance related bonuses	**44**	45
Contribution to defined contribution pension plans	**11**	8
	172	167

Their remuneration fell within the following bands:

	2019 **No. of** **individuals**	2018 No. of individuals
Nil to HKD1,000,000	**2**	2

During the years ended 31 December 2019 and 2018, no Director or any of the highest-paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the Directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

12. Income Tax Expense

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

12. Income Tax Expense (Continued)

In 2017, the Group's wholly-owned subsidiary, Zhuhai HongGuang Lighting Fixture Company Limited ("Zhuhai HongGuang") (珠海宏光照明器材有限公司) was awarded a "New and High Technology Enterprise Certificate" (高新技術企業證書). The certificate of High and New Technology Enterprise has to be renewed over three years. Pursuant to the relevant PRC enterprise income tax law, regulations and implementation guidance notes, Zhuhai HongGuang is entitled to a tax preference with a reduction of the enterprise income tax ("EIT") rate from 25% to 15% for the years ended 31 December 2019 and 2018.

	2019	2018
	RMB'000	RMB'000
Current income tax — PRC EIT		
— tax for the year	**5,532**	5,033
— Over provision in respect of prior years	**—**	(224)
Deferred tax (Note 25)	**268**	331
	5,800	5,140

A reconciliation of the income tax expense applicable to profit before income tax expense using the statutory enterprise income tax rate in the PRC to the tax expense at the effective tax rates is as follows:

	2019	2018
	RMB'000	RMB'000
Profit before income tax expense	**23,078**	29,036
At the PRC's statutory enterprise income tax rate of 15% (2018: 15%)	**3,462**	4,356
Effect of different tax rates of subsidiaries operating in other jurisdiction	**(234)**	(101)
Effect of non-deductible expenses	**2,572**	1,110
Effect of non-taxable income	**—**	(1)
Over provision in respect of prior years	**—**	(224)
Income tax expense	**5,800**	5,140

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

13. Earnings Per Share

The basic earnings per share for the year is calculated based on the profit attributable to owners of the Company of RMB17,278,000 (2018: RMB23,896,000), and the weighted average number of ordinary shares of 400,000,000 issued during the year ended 31 December 2019 (2018: 400,000,000). The Company did not have any potential dilutive shares for the years ended 31 December 2019 and 2018. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

14. Dividend

No dividend has been paid or declared by the Company for the years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

15. Property, Plant and Equipment

	Property (note (i)) RMB'000	Machinery and equipment (note (ii)) RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost						
At 1 January 2018	—	33,571	148	73	200	33,992
Additions	—	1,681	—	6	—	1,687
Exchange adjustment	—	228	—	—	—	228
At 31 December 2018 as originally presented	—	35,480	148	79	200	35,907
Initial application of HKFRS 16	2,035	—	—	—	—	2,035
Restated balance as at 1 January 2019	2,035	35,480	148	79	200	37,942
Additions	—	18,123	—	13	—	18,136
Exchange adjustment	—	315	—	—	—	315
At 31 December 2019	2,035	53,918	148	92	200	56,393
Accumulated depreciation						
At 1 January 2018	—	16,048	97	66	42	16,253
Depreciation charge for the year	—	3,236	27	3	18	3,284
Written back on disposal	—	21	—	—	—	21
At 31 December 2018 and 1 January 2019	—	19,305	124	69	60	19,558
Depreciation charge for the year	325	4,277	11	3	18	4,634
Exchange adjustment	—	250	—	—	—	250
At 31 December 2019	325	23,832	135	72	78	24,442
Net book value						
At 31 December 2019	1,710	30,086	13	20	122	31,951
At 31 December 2018	—	16,175	24	10	140	16,349

Notes:

(i) The property leases from 珠海經濟特區利佳電子發展有限公司, a related party of the Group which is beneficially owned by the shareholders of the Company, Mr. Lin Qi Jian and Mr. Zhao Yi Wen, who are also Directors of the Company, with lease term of 10 years from 1 April 2015 to 31 March 2025.

(ii) For the year ended 31 December 2019, the carrying amount of the Group's machinery includes an amount of RMB2.4 million of right-of-use asset, which the ownership would transfer to the Group by the end of the lease term with no further consideration.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

15. Property, Plant and Equipment (Continued)

Right-of-Use assets included in the Group's property, plant and equipment

	Property RMB'000	Machinery RMB'000
Recognised at 1 January 2019 upon the application of HKFRS 16	2,035	—
Additions	—	2,898
Depreciation	(325)	(483)
At 31 December 2019	1,710	2,415

16. Intangible Assets

	Patent sublicense RMB'000	Computer Software RMB'000	Total RMB'000
Cost			
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	3,600	465	4,065
Accumulated amortisation			
At 1 January 2018	1,059	62	1,121
Amortisation charge for the year	635	47	682
At 31 December 2018 and 1 January 2019	1,694	109	1,803
Amortisation charge for the year	635	47	682
At 31 December 2019	2,329	156	2,485
Net Book Value			
At 31 December 2019	1,271	309	1,580
At 31 December 2018	1,906	356	2,262

17. Inventories

	2019	2018
	RMB'000	RMB'000
Raw materials	**13,797**	4,532
Finished goods	**9,590**	12,132
	23,387	16,664

18. Trade and Bills Receivables

The information about trade and bills receivables after ECLs are as follows:

	2019	2018
	RMB'000	RMB'000
Trade receivables	**132,153**	94,341
Bills receivable	**5,027**	10
	137,180	94,351

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days to 90 days, extending up to 120 days for major customers. The Group seeks to maintain control over its outstanding receivables and overdue balances are reviewed regularly by senior management. There is a certain concentration of credit risk. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in note 35.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

18. Trade and Bills Receivables (Continued)

Included in trade and bills receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	2019	2018
	RMB'000	RMB'000
0 to 30 days	**46,261**	34,187
31 to 60 days	**23,005**	24,739
61 to 90 days	**20,968**	16,361
91 to 120 days	**14,246**	8,083
121 to 365 days	**33,334**	11,448
Over 1 year	**2,870**	1,449
	140,684	96,267
Less: Impairment of trade and bills receivables	**(3,504)**	(1,916)
	137,180	94,351

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

19. Prepayments, deposits and Other Receivables

	2019	2018
	RMB'000	RMB'000
Other receivables	**218**	51
Prepayments and deposits (note)	**8,107**	8,162
	8,325	8,213
Less: non-current portion		
Prepayments and deposits for acquisition of property, plant and equipment	**(195)**	(931)
Current portion	**8,130**	7,282

Prepayments, deposits and other receivables do not contain impaired assets.

Note: The amount includes the prepayment to the independent third parties suppliers amounted to approximately RMB7,633,000 (2018: RMB6,783,000) for purchase of raw material.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

20. Financial assets at fair value through profit or loss

As at 31 December 2019 and 2018, the financial assets at fair value through profit or loss represent the investment in term deposits that the interest income are indexed to performance of investment portfolios comprising corporate bonds, interest bearing deposit and other kind financial asset or group of financial assets. The interest amounts are not consideration for just the time value of money on the principal amount outstanding.

The fair value of financial assets at fair value through profit or loss have been determined by reference to the default rate and recovery rate of the term deposits. No fair value gain or loss was recognised in profit or loss during the years 31 December 2019 and 2018.

The balance of financial assets at fair value through profit or loss with maturity dates of less than six months from the year ended date.

The financial assets at fair value through profit or loss pledged as security for bills payable issued by the Group.

21. Pledged Bank Deposits/Bank Balances and Cash

	2019 **RMB'000**	2018 RMB'000
Bank balances and cash	**30,285**	49,778
Pledged bank deposits (note)	**—**	3,960
Denominated in RMB	**26,841**	44,804
Denominated in HK$	**3,443**	8,929
Denominated in US$	**1**	5

The bank balances and pledged bank deposits are deposited with creditworthy banks with no history of default. The carrying amounts of the pledged bank deposits and bank balances and cash approximated their fair values at the end of the reporting period. Pledged bank deposits and bank balances and cash denominated in RMB are not freely convertible and the remittance of such funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

Note: No pledge bank deposits as at 31 December 2019. At 31 December 2018, pledged bank deposits represent time deposit of RMB2,960,000 and bank deposit of RMB1,000,000 pledged as security for the bank acceptance bills amounted to RMB3,958,000 issued by the Group (note 22).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

22. Trade and bills Payables

	2019 RMB'000	2018 RMB'000
Trade payables	**33,314**	29,405
Bills payables	**12,334**	10,855
	45,648	40,260

The credit period granted from suppliers normally ranges from 0 to 120 days. The aging analysis of trade and bills payables, based on invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
0 to 30 days	**12,748**	11,770
31 to 60 days	**8,693**	3,740
61 to 90 days	**10,140**	8,906
91 to 120 days	**4,786**	5,873
121 to 365 days	**9,076**	9,684
Over 1 year	**205**	287
	45,648	40,260

23. Other Payables and Accruals

	2019 RMB'000	2018 RMB'000
Accrued payroll	**652**	569
Deposits received	**18**	2
Other payables and accruals (Note)	**11,710**	4,682
Other tax payables	**2,414**	1,294
	14,794	6,547

Note: As at 31 December 2018, the amount included approximately RMB1,066,000 utility payables to 珠海經濟特區利佳電子發展有限公司, a related party of the Group which is beneficially owned by the shareholders of the Company, Mr. Lin Qi Jian and Mr. Zhao Yi Wen, who are also Director of the Company. Mr. Lin Qi Jian and Mr. Zhao Yi Wen together held approximately 93.3% (2018: approximately 93.3%) shares of the related party. As at 31 December 2019, the utility payables to 珠海經濟特區利佳電子發展有限公司 have been fully settled.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

24. Bank Borrowings

	2019 **RMB'000**	2018 RMB'000
Unsecured interest-bearing bank borrowings:		
— Repayable on demand or within one year	**12,850**	—

As at 31 December 2019, the effective interest rates of the unsecured interest-bearing bank borrowings were ranging from 4.35% to 5.17% per annum.

25. Deferred Tax Assets

Details of the deferred tax recognised and movements are as follows:

	Deferred tax assets			**Deferred tax liabilities**	
	Impairment of trade receivables RMB'000	**Write off of inventories** RMB'000	**Sub-Total** RMB'000	**Accelerated tax depreciation** RMB'000	**Total** RMB'000
At 1 January 2018	805	4	809	(12)	797
Charged to profit or loss (Note 12)	(326)	—	(326)	(5)	(331)
At 31 December 2018 and 1 January 2019	479	4	483	(17)	466
Charged to profit or loss (Note 12)	396	—	396	(664)	(268)
At 31 December 2019	875	4	879	(681)	198

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

25. Deferred Tax Assets (Continued)

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

	2019 **RMB'000**	2018 RMB'000
Deferred tax assets	**879**	483
Deferred tax liabilities	**(681)**	(17)
	198	466

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors.

As at 31 December 2019 and 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiary established in the PRC. It is because in the opinion of the Directors, it is not probable that the subsidiary will distribute its earnings accrued from the date of operation to 31 December 2019 in the foreseeable future. Accordingly, no deferred tax liabilities have been recognised as at 31 December 2019 and 2018.

26. Share Capital

	Number of ordinary shares	**RMB'000**
Issued and fully paid:		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	400,000,000	3,580

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

27. Reserves

Details of the movements on the Group's reserves for the years ended 31 December 2019 and 2018 is presented in the consolidated statement of changes in equity. Movements on the Company's reserves are as follows:

The Company

	Share premium RMB'000 (note (a))	Accumulated losses RMB'000 (note (f))	Total RMB'000
At 31 December 2018	46,162	(9,812)	36,350
Loss for the year	—	(2,378)	(2,378)
Total comprehensive income for the year	—	(2,378)	(2,378)
At 31 December 2018 and 1 January 2019	46,162	(12,190)	33,972
Loss for the year	—	(12,356)	(12,356)
Total comprehensive income for the year	—	(12,356)	(12,356)
At 31 December 2019	46,162	(24,546)	21,616

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

27. Reserves (Continued)

The Company (Continued)

(a) Share Premium

Share premium represents amount subscribed for share capital in excess of par value.

(b) Statutory Reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the PRC subsidiary/(ies), it is required to appropriate 10% of the annual net profits of the PRC subsidiaries, after offsetting any prior years' losses as determined under the relevant PRC accounting standards, to their respective statutory reserves before distributing any net profit. When the balances of the statutory reserves reach 50% of their respective registered capital, any further appropriation is at the discretion of shareholders. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(c) Other reserve

Other reserve represents the difference between the fair value of the consideration paid and the carrying value of the subsidiaries acquired and was recorded in the equity.

(d) Capital Reserve

Capital reserve represents the capital contribution from shareholders.

(e) Exchange Reserve

Exchange reserve represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

(f) Retained Earnings

Retained earnings represents cumulative net gains and losses recognised in profit or loss.

28. Lease

HKFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 4(h)A.

Nature of leasing activities (in the capacity as lessee)

The Group leases a property in the jurisdiction from which it operate. The rent for the property is fixed at RMB30,928 per month with lease term of 10 years.

Right-of-use assets

The net book value of the underlying assets of right-of-use assets is as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Properties leased for own use, carried at depreciated cost	**1,710**	2,035
Machinery, carried at depreciated cost	**2,415**	—

Lease liabilities

Future lease payments are due as follows:

	Minimum lease payments 31 December 2019 RMB'000	**Future Interest 31 December 2019 RMB'000**	**Present-value 31 December 2019 RMB'000**
Not later than one year	**2,038**	**180**	**1,858**
Later than one year and not later than two years	**1,102**	**74**	**1,028**
Later than two years and not later than five years	**1,113**	**78**	**1,035**
After 5 years	**93**	**1**	**92**
	4,346	**333**	**4,013**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

28. Lease (Continued)

Nature of leasing activities (in the capacity as lessee) (Continued)

Lease liabilities (Continued)

	Minimum lease payments 1 January 2019 RMB'000	Future Interest 1 January 2019 RMB'000	Present-value 1 January 2019 RMB'000
Not later than one year	371	81	290
Later than one year and not later than two years	371	69	302
Later than two years and not later than five years	1,114	123	991
Later than five years	464	12	452
	2,320	285	2,035

The present value of future lease payments are analysed as:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Current liabilities	**1,858**	290
Non-current liabilities	**2,155**	1,745
	4,013	2,035

No short term and low value lease which the Group has elected to recognise right-of-use asset and lease liabilities for the year ended 31 December 2019.

28. Lease (Continued)

Operating Lease Commitment

For the year ended 31 December 2018, the Group leased office premises under operating lease arrangement with a related party during the year. Leases for these properties are negotiated for terms ranging from three to ten years. The lease commitment only includes commitment for basic rental and the lease does not include any contingent rental.

Future minimum lease payments in respect of a rent premise are as follows:

	2018 RMB'000
Not later than one year	390
Later than one year and not later than five years	1,559
Later than five years	487
	2,436

Operating lease are rent repayable to 珠海經濟特區利佳電子發展有限公司, a related party of the Group which is beneficially owned by the shareholders of the Company, Mr. Lin Qi Jian and Mr. Zhao Yi Wen, who are also Directors of the Company.

29. Capital Commitments

	2019 **RMB'000**	2018 RMB'000
Commitments for the acquisition of property, plant and equipment	**—**	1,034

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

30. Holding Company Statement of Financial Position

	Notes	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		**7**	7
		7	7
Current assets			
Amounts due from subsidiaries		**27,176**	29,389
Other receivables		**—**	88
Cash and cash equivalents		**2,723**	8,736
		29,899	38,213
Current liabilities			
Other payables		**4,710**	668
		4,710	668
Net assets		**25,196**	37,552
EQUITY			
Share capital	26	**3,580**	3,580
Reserves	27	**21,616**	33,972
Total equity		**25,196**	37,552

On behalf of the Directors

Zhao Yi Wen
Director

Lin Qi Jian
Director

31. Investment in Subsidiaries

Details of the subsidiaries as at 31 December 2019 are as follows:

Name	Form of business structure	Place of incorporation/ operation and principal activity	Description of shares held	Percentage of ownership interests/ voting rights/profit share	
				Direct %	Indirect %
HongGuang Lighting Group Company Limited	Corporation	BVI Investment holding	1 ordinary share of United State Dollar ("US$") 1 each	100	—
HongGuang Lighting (International) Limited	Corporation	BVI Investment holding	1,000 ordinary shares of US$1 each	100	—
HongGuang Lighting (Hong Kong) Holdings Limited	Corporation	Hong Kong Investment holding	1,000 ordinary shares of HK$1 each	—	100
Zhuhai HongGuang Lighting Fixture Company Limited	Corporation	The PRC Design, development, manufacturing, subcontracting service and sales of LED beads and LED lighting products	RMB 36,000,000	—	100

None of the subsidiaries had issued any debt securities at the end of the year.

32. Related Party Transactions

(a) During the year, the Group entered into the following transactions with related parties:

Name of related party	Nature of transactions	Transaction amount 2019 RMB'000	2018 RMB'000
珠海經濟特區利佳電子發展有限公司	Utility expense (note (ii))	**2,242**	1,984
珠海經濟特區利佳電子發展有限公司	Rental expense (note (iii))	**290**	388
珠海經濟特區利佳電子發展有限公司	Interest on lease liability (note (iii))	**81**	—
		2,613	2,372

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

32. Related Party Transactions

(a) (Continued)

Notes:

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

(ii) The utility expense was first paid by the related party based on the actual amount of utility expense incurred, which was subsequently reimbursed by the Group.

(iii) The rental expense and interest on lease liability are relating to the property lease from the related party (note 15).

(b) Compensation of key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Executive Directors as disclosed in note 10, is as follows:

	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**1,340**	1,291
Pension scheme contributions	**40**	30
	1,380	1,321

33. Notes Supporting Cash Flow Statement

(a) Cash and cash equivalents comprise

	2019	2018
	RMB'000	RMB'000
Cash available on demand	**30,285**	49,778

33. Notes Supporting Cash Flow Statement (Continued)

(b) Reconciliation of liabilities arising from financing activities

	Bank borrowings RMB'000	Lease liabilities RMB'000	Amount due to a director RMB'000
At 1 January 2018	—	—	832
Total change from cash flow:			
Repayment to a director	—	—	(832)
At 31 December 2018 as originally presented	—	—	—
Initial application of HKFRS 16	—	2,035	—
Restated balance as at 1 January 2019	—	2,035	—
Change from cash flow:			
Proceed from bank borrowings	12,850	—	—
Repayment of principal portion of the lease liabilities	—	(920)	—
Interest paid	(309)	(147)	—
Total change from cash flow	12,541	(1,067)	—
Other change			
Additional right-of-use asset	—	2,898	—
Interest expenses	309	147	—
Total other change	309	3,045	—
At 31 December 2019	12,850	4,013	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

34. Summary of Financial Assets and Financial Liabilities

The following table shows the carrying amount and fair value of financial assets and liabilities:

	2019	2018
	RMB'000	RMB'000
Financial assets		
Measured at amortised cost	**167,683**	148,140
Fair value through profit or loss	**13,190**	6,905
Financial liabilities		
Measured at amortised cost	**74,891**	45,513

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

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include pledged bank deposits, bank balances and cash, trade and bills receivables, other receivables, trade payables and other payables and accruals.

Due to their short term nature, the carrying value of pledged bank deposits, bank balances and cash, trade and bills receivables, other receivables, trade payables and other payables and accruals approximates fair value.

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instrument, as well as the relationship between key observable inputs and fair value are set out below.

Information about level 3 fair value measurements

The fair value of the financial asset through profit or loss is estimated using a discounted cash flow method.

34. Summary of Financial Assets and Financial Liabilities (Continued)

(b) Financial instruments measured at fair value (Continued)

Significant unobservable inputs

	2019	2018
Default rate	**0.05%**	0.05%
Recovery rate	**35.13%**	30.36%

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
As at 31 December 2019				
Financial assets at fair value through profit or loss	**—**	**—**	**13,190**	**13,190**

There were no transfers between levels during the year.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2018				
Financial assets at fair value through profit or loss	—	—	6,905	6,905

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

35. Financial Risk Management

The Group's activities expose itself to variety of financial risks: interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors regularly reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk in relation to variable-rate bank balances. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the short-term bank deposits. However, management considers the interest rate risk on the deposits is insignificant as they are relatively short-term. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

After performed the sensitivity analysis, management considered that the potential effect on the Group's post-tax profit at the end of each of the reporting period would be minimal, if interest rates had been 100 basis points higher/lower and all other variables were held constant. In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of each of the reporting period do not reflect the exposures during the year.

Foreign currency risk

Substantially all the transactions of the Group's subsidiaries in the PRC are carried out in RMB, which is the functional currency of the Group. Therefore, the risk on foreign currency risk is minimal.

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

The credit risk of the Group's other financial assets, which comprise pledged bank deposits, bank balances and cash and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

35. Financial Risk Management (Continued)

Credit risk (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of 31 December 2019, the Group has a certain concentration of credit risk as approximately 61% (2018: 59%) of the total trade receivables were due from the five largest customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. The Group's historical credit loss experience indicated different loss patterns for different customer segments. The historical default rates on the Group's trade receivables for the past 5 years were low. The management, in assessing the amount of the ECLs, takes into account not only the Group's historical data but also external market information about possible default rates on debts similar to the Group's trade debts. Different customer segments are outlined as follows:

- Grade 1 Good credit rating customers
- Grade 2 Average credit rating customers
- Grade 3 Credit impaired customers

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

31 December 2019

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	**1.00%**	**60,938**	**609**
Past due for less than 30 days	**1.00%**	**9,125**	**91**
Past due for more than 30 days but less than 90 days	**1.00%**	**16,097**	**161**
Past due for more than 90 days but less than 120 days	**1.00%**	**12,088**	**121**
Past due for more than 120 days but less than 365 days	**1.00%**	**99**	**1**
		98,347	**983**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

35. Financial Risk Management (Continued)

Credit risk (Continued)

31 December 2019 (Continued)

Grade 2

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	1.75%	25,015	438
Past due for less than 30 days	1.75%	6,632	116
Past due for more than 30 days but less than 90 days	1.75%	1,746	30
Past due for more than 90 days but less than 120 days	4.00%	929	37
Past due for more than 120 days but less than 365 days	4.00%	118	5
		34,440	626

Grade 3

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Past due for more than 365 days	66%	2,870	1,895
		2,870	1,895

35. Financial Risk Management (Continued)

Credit risk (Continued)

31 December 2018

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	0.81%	42,677	346
Past due for less than 30 days	0.81%	10,248	83
Past due for more than 30 days but less than 90 days	0.81%	8,811	71
		61,736	500

Grade 2

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	1.75%	23,950	419
Past due for less than 30 days	1.75%	3,764	66
Past due for more than 30 days but less than 90 days	1.75%	3,713	65
Past due for more than 90 days but less than 120 days	4.00%	1,312	52
Past due for more than 120 days	9.60%	464	45
		33,203	647

Grade 3

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Past due for more than 365 days	58%	1,318	769
		1,318	769

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

35. Financial Risk Management (Continued)

Credit risk (Continued)

Summary

Movement in the loss allowance account in respect of trade and bills receivables during the year is as follows:

	2019	2018
	RMB'000	RMB'000
Balance at 1 January under HKFRS 9	**1,916**	3,219
Provision on/(reversal of) expected credit losses	**1,588**	(1,303)
Balance at 31 December	**3,504**	1,916

The following significant changes in the gross carrying amounts of trade and bills receivables contributed to the increase in the loss allowance during 2019:

— Increase in long overdue trade receivable resulted in an increase in loss allowance at approximately RMB1,588,000.

Liquidity risk

The Group objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

35. Financial Risk Management (Continued)

Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Company's non-derivative and derivative financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000
At 31 December 2019						
Trade and bills payables	**45,648**	**45,648**	**45,648**	—	—	—
Other payables and accruals	**12,380**	**12,380**	**12,380**	—	—	—
Bank borrowings	**12,850**	**13,126**	**13,126**	—	—	—
Lease liabilities	**4,013**	**4,346**	**2,038**	**1,102**	**1,113**	**93**
	74,891	**75,500**	**73,192**	**1,102**	**1,113**	**93**

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000
At 31 December 2018						
Trade and bills payables	40,260	40,260	40,260	—	—	—
Other payables and accruals	5,253	5,253	5,253	—	—	—
	45,513	45,513	45,513	—	—	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

36. Capital Management

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing the products commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. Net debt includes trade and bills payables, other payables and accruals and bank borrowings less Bank balances and cash. The net debt-to-equity ratio as at the end of each of the financial year is as follows:

	2019 **RMB'000**	2018 RMB'000
Trade and bills payables	**45,648**	40,260
Other payables and accruals	**14,794**	6,547
Bank borrowings	**12,850**	—
Less: Bank balances and cash	**(30,285)**	(49,778)
Net debt	**43,007**	(2,971)
Equity	**167,596**	150,210
Net debt-to-equity ratio	**26%**	Nil

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

37. Events After the Reporting Period

Except as disclosed elsewhere in this report, the Group has the following subsequent events undertaken by the Company or by the Group after 31 December 2019 :

The outbreak of respiratory disease caused by the novel coronavirus (COVID-19) (the "Epidemic") that was first detected in the Wuhan City, PRC, has impacted the Group started from January 2020 as the Group's business operation is principally located in the PRC. As provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of the Epidemic, restriction on the work resumption date after the Chinese New Year Holidays was imposed. The Group's principal production factory, located in the Zhuhai City, PRC, has resumed operations on 10 February 2020 after the Chinese New Year Holidays and the suspension period prescribed by the relevant government authority. Due to the Epidemic, some of the Group's customers and suppliers have also experienced disruption and suspension of business operation and production after the Chinese New Year Holidays. As at the date of this report, the situation faced by the Group in relation to the Epidemic is likely to have a negative impact on the Group's short term financial results. Pending on the development of the Epidemic situation subsequent to the date of this report, further changes in economic conditions for the Group arising thereof may have further impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report.

38. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2020.

FINANCIAL SUMMARY

Results

	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**243,260**	203,747	116,737	141,990	118,706
Profit before income tax expense	**23,078**	29,036	13,494	13,007	12,317
Income tax expense	**(5,800)**	(5,140)	(661)	(7,121)	(4,581)
Profit for the year	**17,278**	23,896	12,833	5,886	7,736

Assets and Liabilities

	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**246,096**	198,948	144,891	176,663	110,905
Total liabilities	**78,500**	48,738	19,266	62,094	57,733
Total equity	**167,596**	150,210	125,625	114,569	53,172

Note: The financial information for the year ended 31 December 2015 was extracted from the prospectus of the Company dated 16 December 2016. The summary above does not form part of the audited financial statements.