



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

2020

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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

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 Regatta Office Park
 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")

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 Zhuhai
 PRC

Place of Business in Hong Kong

Suite 2703, 27/F., Shui On Centre
 6-8 Harbour Road
 Wanchai
 Hong Kong

CORPORATE INFORMATION (CONTINUED)

Cayman Islands Principal Share Registrar and Transfer Office

Ocorian Trust (Cayman) Limited
Windward 3
Regatta Office Park
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 Bankers

Bank of China
Zhuhai Xiangzhou Sub-branch
1st Floor
Anping Building
274 Cuixiang Road
Xiangzhou, Zhuhai
PRC

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 hereby present the annual report of HongGuang Lighting Holdings Company Limited (the "**Company**") together with its subsidiaries (the "**Group**") for the year ended 31 December 2020 (the "**Year**" or "**2020**").

There is no doubt the year 2020 has been one of the most challenging years in recent decades. The outbreak of the COVID-19 pandemic (the "**Pandemic**") has caused profound economic disruption in China and globally. Due to the Pandemic, China's economy suffered the first economic contraction since the 1970s with gross domestic product contracted by 6.8% in the first quarter of 2020.

The Pandemic has also significantly impacted the Group's operations and financial results. The Group's business operations in Zhuhai City has been temporarily disrupted in February 2020 and some of the Group's customers and suppliers have also experienced disruption or suspension in their operation and production after the Chinese New Year Holidays in 2020. The Group recorded a decrease in revenue of approximately 49.9% from approximately RMB243.3 million for the year ended 31 December 2019 (the "**Previous Year**" or "**2019**") to approximately RMB122.0 million for the Year, as well as a decrease in profit from approximately RMB17.3 million for the Previous Year to approximately RMB4.6 million for the Year.

While the Company consistently focuses on the development and sales of the light-emitting diode ("**LED**") beads and LED lighting products, we have also been exploring potential investment opportunities which can increase shareholders' values. On 24 February 2021, the Company entered into a Sales and Purchase Agreement (the "**SPA**") to acquire the GSR GO Holding Corporation (the "**GSR GO**") together with its subsidiary (the "**GSR GO Group**"). The GSR GO Group is principally engaged in the research and development of fast charging solutions for the battery system. We are optimistic about the market potential for electric bicycle battery systems and the related fast charging solution. The development of fast charging battery solution is also likely to create synergy with the Group's existing products and allow cross-selling in these electronic components in smart devices. Therefore, the acquisition of the GSR GO Group will serve as an extension of the Group's business to mitigate the adverse impact of the outbreak of the Pandemic on the current business of the Group. As at the date of this annual report, the acquisition is pending completion under the SPA.

As at the date of this annual report, the management of the Company cannot ascertain the extent to which the Group's operations will continue to be impacted by the Pandemic. Further developments related to the Pandemic may continue to have an extended adverse impact on the Company's results of operations and financial condition. 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)

Last but not least, on behalf of the Board, I would like to express my sincere appreciation to our staff and employees for demonstrating resilience, dedication and professionalism during this difficult time. 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, 29 March 2021

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 People’s Republic of China (“PRC”). During the Year, the Group mainly generated revenue from the sales of LED beads 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 decreased from approximately RMB243.3 million for the Previous Year to approximately RMB122.0 million for the Year. The significant decrease in revenue during the Year was primarily attributable to the adverse impact of the Pandemic, which led to the suppressed demand and delayed procurement plans from certain customers of the Group.

Profit for the Year amounted to approximately RMB4.6 million (approximately RMB17.3 million for the Previous Year), which represents a decrease of approximately RMB12.7 million or approximately 73.4% as compared to the Previous Year. Such decrease was mainly attributable to the substantial decrease in the Group’s revenue from the sales of LED beads and LED lighting products in the PRC.

Due to the outbreak of the Pandemic, business operations at the Group’s wholly-owned subsidiary, Zhuhai HongGuang Semiconductor Company Limited* (“**Zhuhai HongGuang**”) (珠海宏光半導體有限公司), formerly known as the Zhuhai HongGuang Lighting Fixture Company Limited* (珠海宏光照明器材有限公司), was temporarily disrupted in February 2020, as certain workers in the affected provinces and municipalities were unable to return to the Group’s principal production factory which is located in Zhuhai City of Guangdong Province after the Chinese New Year Holidays owing to the suspension or limited service of transportation facilities in certain cities in the PRC. Moreover, some of the Group’s customers and suppliers had also experienced an extended period of disruption or suspension in their business operation and production after the Chinese New Year Holidays in 2020.

With the improving situation of the prevention and control on the Pandemic and the lifting of local travel restrictions in most parts of the PRC, most of the Group’s workers had reported to duties and the previously affected customers and suppliers had gradually resumed production in the second quarter of 2020. The Group has also imposed the highest hygiene and caution standard in its working environment to protect the health and safety of the staff.

Although the PRC has been able to show a progressive recovery of the demand and production of electronic products in the second half of 2020, the repercussions of the Pandemic continued to negatively impact the business performance of the Group. Customers of the Group remained conservative in terms of their amounts of purchases with the Group due to the uncertainties associated with the prolonged Pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In response to the uncertainties prompted by the Pandemic, the Group has been exploring opportunities to diversify its risks of the business. On 24 February 2021, the Company entered into a Sale and Purchase Agreement (the “SPA”) to acquire the GSR GO Group by way of the issuance of consideration shares. The GSR GO Group is principally engaged in the research and development of fast charging solutions for the battery system. It is expected that fast charging battery solution will be a preferred choice by the fast growing food delivery industry in the PRC and there will be a steady growing demand for electric bicycle battery systems in the PRC. The acquisition of the GSR GO Group will serve as an extension of the Group’s business to mitigate the adverse impact of the outbreak of the Pandemic on the current business of the Group while bringing in potential investment opportunities which increase the values of the Group’s shareholders. As at the date of this annual report, the acquisition is pending completion under the SPA.

Moreover, the Group recognises the immense value of research and development to increase resiliency when faced with the unprecedented effects of the Pandemic and therefore will continue to dedicate efforts on research and development. During the Year, the Group has successfully submitted applications for the registration of 6 patents in the PRC and the registration of one patent was further granted to Zhuhai HongGuang. As at 31 December 2020, the Group was the registered proprietor of 28 patents in the PRC.

As at the date of this annual report, the management of the Company cannot ascertain the extent to which the Group’s operations will continue to be adversely impacted by the Pandemic, which largely depends on future developments that cannot be accurately predicted, such as the resurgences and further spread of the Pandemic and the actions by Government authorities, the economic recovery within China, the impacts on consumer behaviour and other related factors. We expect that further developments related to the Pandemic may continue to have an extended adverse impact on the Company’s results of operations and financial condition. 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

Year ended 31 December (RMB'000)	2020	2019	Percentage Change
Revenue	121,995	243,260	-49.8%
Cost of sales	(95,624)	(182,996)	-47.7%
Gross profit	26,371	60,264	-56.2%
Profit before income tax expense	6,394	23,078	-72.3%
Net profit	4,563	17,278	-73.5%
Earnings per share (RMB)	0.0114	0.0432	-73.6%
Total assets	220,575	246,096	-10.4%
Total equity	172,157	167,596	2.7%
Key Financial Ratios			
Gross profit margin (%)	21.6	24.8	
Net profit margin (%)	3.7	7.1	
Return on equity (%)	2.7	10.3	
Return on assets (%)	2.1	7.0	
Current ratio	3.9	2.8	
Gearing ratio (%)	7.6	7.7	

Financial Review

Revenue

For the Year, total revenue was approximately RMB122.0 million, representing a decrease of approximately 49.9% as compared with that for the Previous Year (2019: approximately RMB243.3 million). The decrease was mainly attributable to the decrease in revenue from the sales of both LED beads and LED lighting products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	2020		2019	
	RMB'000	%	RMB'000	%
LED beads	121,081	99.3	234,980	96.6
LED lighting products	—	—	6,299	2.6
Subcontracting service	914	0.7	1,981	0.8
Total	121,995	100.0	243,260	100.0

For the Year, revenue from LED beads amounted to approximately RMB121.1 million (2019: approximately RMB235.0 million), accounting for approximately 99.3% of the total revenue (2019: approximately 96.6%). The decrease in revenue was mainly due to the decrease in the sales volume during the Year, as the demand for backlight LED products and LED beads in the PRC has substantially declined as a result of the Pandemic.

Revenue from LED lighting products during the Year was nil (2019: approximately RMB6.3 million).

Revenue from subcontracting service during the Year amounted to approximately RMB0.9 million (2019: approximately RMB2.0 million), representing approximately 0.7% of the total revenue (2019: approximately 0.8%).

Cost of Sales

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It decreased by approximately 47.8% from approximately RMB183.0 million for the Previous Year to approximately RMB95.6 million for the Year, reflecting a decrease in the sales volume of LED beads and LED lighting products, which mainly led to the decrease in the cost of material used.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit and Gross Profit Margin

The gross profit decreased from approximately RMB60.3 million for the Previous Year to approximately RMB26.4 million for the Year. The gross profit margin decreased from approximately 24.8% for the Previous Year to approximately 21.6% for the Year. The following table sets forth a breakdown of the gross profit and gross profit margin by segment for the periods indicated:

	2020		2019	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
LED beads	25,457	21.0	55,202	23.5
LED lighting products	—	—	3,081	48.9
Subcontracting service	914	N/A ^(Note)	1,981	N/A ^(Note)
Total gross profit/gross profit margin	26,371	21.6	60,264	24.8

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

The gross profit margin of LED beads decreased from approximately 23.5% for the Previous Year to approximately 21.0% for the Year. Such decrease was mainly attributable to the decrease in the average selling price of LED beads.

Other Income and Gains

Other income and gains of the Group increased by approximately 200.0% from approximately RMB0.8 million for the Previous Year to approximately RMB2.4 million for the Year, which was mainly due to the increase in Government grants from the PRC Government during the Year.

Selling and Distribution Expenses

The selling and distribution expenses decreased by approximately 5.0% from approximately RMB2.0 million for the Previous Year to approximately RMB1.9 million for the Year. The selling and distribution expenses mainly comprised of staff costs, traveling expenses and entertainment expenses. The decrease in selling and distribution expenses was mainly attributable to the decrease in traveling expenses during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Administrative and Other Expenses

The Group's administrative and other expenses decreased by approximately 50.6% from approximately RMB34.0 million for the Previous Year to approximately RMB16.8 million for the Year. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The decrease in administrative and other expenses was mainly due to (i) the absence of professional services expenses in relation to the Company's transfer of listing from the GEM to the Main Board of the Stock Exchange during the Year; and (ii) the decrease in research and development costs during the Year. The professional services expenses in relation to the preparation of transfer of listing from the GEM to the Main Board of the Stock Exchange were approximately RMB9.1 million for the Previous Year. The research and development costs were approximately RMB8.3 million for the Year (2019: approximately RMB14.0 million)

Finance Costs

The Group's finance costs was approximately RMB0.8 million for the Year (2019: approximately RMB0.5 million). The increase in finance costs was mainly attributable to the increased average drawn down from the banking facilities for the Year, as compared to that for the Previous Year.

Income Tax Expense

Income tax expense of the Group for the Year was approximately RMB1.8 million (2019: approximately RMB5.8 million). The decrease in income tax expense was primarily attributable to the Group's decrease in taxable profit during the Year.

Profit for the Year

The profit for the Year decreased by approximately RMB12.7 million or approximately 73.4% from approximately RMB17.3 million for the Previous Year to approximately RMB4.6 million for the Year. The decrease in profit for the Year was mainly attributable to the decrease in revenue for the Year, as compared to that for the Previous Year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Net Profit Margin

The net profit margin was approximately 3.7% for the Year, compared to that of 7.1% for the Previous Year. The decrease was mainly due to the decrease in revenue for the Year, as compared to that for the Previous Period.

Dividend

The Directors do not recommend the payment of a final dividend for the Year (2019: 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 actual business progress up to 31 December 2020:

Business strategies as set out in the Prospectus	Actual business progress up to 31 December 2020
— 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 5 sales and marketing staff and is in the process of exploring the 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. The Group's total drawn down from the banking facilities as at 31 December 2020 was RMB13.0 million. The gearing ratio as at 31 December 2020 was approximately 7.6%.

One of the key risks and uncertainties facing the Group is the reliance on the downstream LED lighting industry. During the Year, many downstream customers experienced a sales downturn, hence reduced purchases from the Group as a result of the Pandemic. In response to this, the Group will continuously strive to broaden the client base.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Use of Proceeds

Based on the placing price of HK\$0.63 per share, the net proceeds from the Company's listing on the GEM on 30 December 2016 (the "**Listing**"), after deducting the underwriting commission and other estimated expenses, amounted to approximately HK\$37.4 million. The Group has applied 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 2020, the Group's application and actual utilisation of the net proceeds are set out below:

Use of proceeds	Net proceeds HK\$ million	Utilised HK\$ million	Unutilised HK\$ million
Expansion of the Group's production capacity	21.7	21.7	—
Developing the Group's sales channels	0.8	0.8	—
Repayment of bank loans	11.4	11.4	—
General working capital of the Group	3.5	3.5	—
	37.4	37.4	—

The net proceeds of approximately HK\$37.4 million have been fully utilised as at 31 December 2020.

Liquidity, Financial Resources and Capital Structure

For the Year, the amount of net cash used by the Group in its operating activities was approximately RMB21.9 million as compared to that of approximately RMB14.1 million for the Previous Year, primarily due to the decrease in trade and bills payables, other payables and accruals during the Year, as compared to the increase in trade and bills payables, other payables and accruals in the corresponding period in 2019.

As at 31 December 2020, the Group had net current assets of approximately RMB136.3 million (31 December 2019: approximately RMB 135.8 million). The Group's current ratio as at 31 December 2020 was approximately 3.9 times (31 December 2019: approximately 2.8 times).

As at 31 December 2020, the Group had total cash and bank balances of approximately RMB9.2 million (31 December 2019: approximately RMB30.3 million). The decrease in total cash and bank balances was mainly due to the application of approximately RMB21.9 million in the operating activities during the Year.

As at 31 December 2020, the total available banking facilities of the Group were RMB13.0 million (31 December 2019: RMB15.0 million). The total drawn down of the banking facilities as at 31 December 2020 was RMB13.0 million (31 December 2019: approximately RMB12.9 million).

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. The share capital of the Company comprises only ordinary shares. As at 31 December 2020, the equity attributable to owners of the Company amounted to approximately RMB172.2 million (2019: approximately RMB167.6 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 10.3% for the Previous Year to approximately 2.7% for the Year. Such decrease was mainly attributable to the decrease in net profit as a result of the decrease in revenue 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 7.0% for the Previous Year to approximately 2.1% for the Year. Such decrease was mainly attributable to the decrease in net profit as a result of the decrease revenue 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) increased from approximately 2.8 times as at 31 December 2019 to approximately 3.9 times as at 31 December 2020, primarily due to the decrease in trade and bills payables, other payables and accruals for the year ended 31 December 2020.

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 2020 was approximately 7.6% (31 December 2019: approximately 7.7%).

Significant Investments

As at 31 December 2020, there was no significant investment held by the Group (2019: 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 2020.

Capital Commitments

As at 31 December 2020, the Group had capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to approximately RMB0.4 million (2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Charge on the Group's assets

As at 31 December 2020, the Group pledged the following assets for the issuance of bank acceptance bills by the Group:

- (i) bills receivable of approximately RMB0.7 million (31 December 2019: nil); and
- (ii) financial assets at fair value through profit or loss of nil (31 December 2019: approximately RMB13.2 million).

In addition, as at 31 December 2020, charges were created over the right-of-use assets of approximately RMB0.9 million under a lease arrangement (31 December 2019: approximately RMB2.4 million).

Contingent Liabilities

As at 31 December 2020, 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, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 31 December 2020, the Group employed 143 employees (31 December 2019: 156 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB8.6 million for the Year (2019: approximately RMB9.1 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 51, 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.

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 42, 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 19 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 40, 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's 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 16 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 58, 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 19 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 61, 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's 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 64, 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 27 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; (iii) Palinda Group Holdings Limited (formerly known as “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 48, 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’s 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 23 years of experience in auditing, accounting and corporate finance. Currently, Mr. Chan is the Chief Financial Officer and Company Secretary of Brilliant Circle Holdings International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1008).

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 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 50, 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 64, 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 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製作有限公司), 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 Rules Governing the Listing of Securities on the Stock Exchange (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 24), the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2020.

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 2020.

Board of Directors

Board Composition

As at 31 December 2020, 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 concerned 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:

Name of Directors	Meetings attended/Meetings held					
	Board meetings	Audit committee meetings	Remuneration committee meetings	Nomination committee meetings	Annual general meetings	Extraordinary general meetings
Executive Directors						
Mr. Zhao Yi Wen (<i>Chairman and Chief Executive Officer</i>)	4/4	N/A	N/A	N/A	1/1	N/A
Mr. Lin Qi Jian	4/4	N/A	N/A	N/A	1/1	N/A
Mr. Chan Wing Kin	4/4	N/A	N/A	N/A	1/1	N/A
Non-executive Director						
Mr. Chiu Kwai San	4/4	N/A	N/A	N/A	1/1	N/A
Independent Non-executive Director						
Professor Chow Wai Shing, Tommy	4/4	2/2	2/2	1/1	1/1	N/A
Mr. Wu Wing Kuen, <i>B.B.S</i>	4/4	2/2	2/2	1/1	1/1	N/A
Mr. Chan Chung Kik, Lewis	4/4	2/2	2/2	1/1	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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 2020, 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 (<i>Chairman and Chief Executive Officer</i>)	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, <i>B.B.S</i>	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 two meetings during the year ended 31 December 2020. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 23 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 2020. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 23 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Nomination Committee had one meeting during the year ended 31 December 2020 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 23 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 2020, representation of Independent Non-executive Directors on the Board was 42%.

As at 31 December 2020, female representation on the Board was 0%. For the year ended 31 December 2020, 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 2020 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:

Name of Directors	Age Group			
	40 and below	41–50	51–60	61 and above
Mr. Zhao Yi Wen (<i>Chairman and Chief Executive Officer</i>)			✓	
Mr. Lin Qi Jian		✓		
Mr. Chan Wing Kin	✓			
Mr. Chiu Kwai San			✓	
Professor Chow Wai Shing, Tommy				✓
Mr. Wu Wing Kuen, <i>B.B.S</i>				✓
Mr. Chan Chung Kik, Lewis		✓		

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 55 to 117 of this annual report.

For the year ended 31 December 2020, the fees in respect of the services provided to the Group by BDO Limited, is set out as follows:

Nature of services	For the year ended 31 December 2020 RMB'000
Audit services	782
Non-audit services	44

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 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 pages 16 to 17 of this annual report.

For the year ended 31 December 2020, 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 annual report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 Suite 2703, 27/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 Suite 2703, 27/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 Directors 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 2020, 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 2020 (“**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, subcontracting service and sales of 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 below 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

A. Environmental

Emissions

In demonstrating our commitment to preserve the environment and mitigate pollution, the Zhuhai HongGuang Production Plant has adopted an ISO14001-compliant environmental management system, to assist the Company in identifying, managing, monitoring and controlling its 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	4.6
VOCs	Kilogram	244.6

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 immaterial 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	1.6

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 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	1,120

To reduce the greenhouse gas emission, we 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 on 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)	2,201

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	6.77
Antistatic bag	Tonne	5.11

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. 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 undesired nuisance to the surrounding neighbourhood. To mitigate the noise nuisance, we maintained 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 working 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 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 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 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 working environment which is free of workplace health and safety incidents and to comply fully with Production Safety Law of the PRC and Fire Control Law of the PRC.

The Company has published booklets with 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, including 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 Labour Law of the PRC and 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 providing products and services that meet customers' 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 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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 share 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 in ensuring 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 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 to mitigate the risk of frauds. A Policy has been established to govern the 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 is also 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 its 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 seeking for any opportunity to enhance the sustainability of the community, such as regular social welfare activities. The Company organized and participated in local community events such as home visits to elderly during the Reporting Period.

DIRECTORS' REPORT

The Directors submit herewith their annual report together with the audited financial statements for the Year.

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 15 of this annual report. These discussions form part of this Directors' report.

Results

The results of the Group for the Year 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.

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 118. 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 was nil (Previous Year: HK\$1,000,000).

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

During the Year, 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 2020, the Company's reserves available for distribution to the shareholders of the Company amounted to approximately RMB16.6 million.

Major Customers and Suppliers

For the Year, the largest customer accounted for approximately 17.7% (2019: approximately 18.1%) of the total revenue. For the Year, the percentage of revenue derived from the five largest customers in aggregate was approximately 64.7% (2019: approximately 59.2%).

For the Year, the largest supplier accounted for approximately 17.6% (2019: approximately 34.2%) of the total purchases. For the Year, the five largest suppliers in aggregate accounted for approximately 63.4% (2019: approximately 87.8%) 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.

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.

DIRECTORS' REPORT (CONTINUED)

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 several 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, we 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 suit 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 adopted an ISO 14001-compliant environmental management system, to assist the Group in identifying, managing, monitoring and controlling its 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 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.

DIRECTORS' REPORT (CONTINUED)

Customers

During the Year, the Group sold LED beads 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.

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 annual 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. Lin Qi Jian, Mr. Chan Wing Kin, and Professor Chow Wai Shing, Tommy 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 2020, 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 has been entered into or existed during the Year.

DIRECTORS' REPORT (CONTINUED)

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 has been 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 be listed on the Stock Exchange; or (ii) the date on which the Covenantors cease to be 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, agent, 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 2020.

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.

DIRECTORS' REPORT (CONTINUED)

(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 2020, 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:

- The letter "L" denotes a long position.
- 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, a company 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.
- 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, a company 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.
- 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, a company 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.
- 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.

DIRECTORS' REPORT (CONTINUED)

Save as disclosed above, as at 31 December 2020, 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 2020, 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:

- The letter "L" denotes a long position.
- 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, a company 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.
- 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, a company 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, a company 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 2020, 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, the Group has entered into certain transactions with "related parties" as defined under the applicable 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.

DIRECTORS' REPORT (CONTINUED)

Corporate Governance

Details of the corporate governance practice adopted by the Company are set out on pages 20 to 34 of this annual report.

Audit Committee

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

Auditor

The consolidated financial statements for the Year 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, 29 March 2021

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 117 which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 and 35 to the consolidated financial statements and the accounting policies on Note 4(d)(ii).

As at 31 December 2020, the Group's gross trade and bills receivables balance amounted to approximately RMB120,851,000, of which approximately RMB37,012,000 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.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and 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

Chau Ka Kin

Practising Certificate Number: P07445

Hong Kong, 29 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	7	121,995	243,260
Cost of sales		(95,624)	(182,996)
Gross profit		26,371	60,264
Other income and gains	7	2,428	832
Selling and distribution expenses		(1,877)	(1,960)
Administrative and other expenses		(16,823)	(34,014)
Provision on expected credit losses on trade and bills receivables		(2,926)	(1,588)
Finance costs	9	(779)	(456)
Profit before income tax expense	8	6,394	23,078
Income tax expense	12	(1,831)	(5,800)
Profit for the year attributable to owners of the Company		4,563	17,278
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(2)	108
Total comprehensive income for the year attributable to owners of the Company		4,561	17,386
Earnings per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	13	1.14	4.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	33,591	31,951
Intangible assets	16	898	1,580
Prepayments and deposits	19	653	195
Deferred tax assets	25	1,835	198
		36,977	33,924
Current assets			
Inventories	17	38,413	23,387
Trade and bills receivables	18	114,421	137,180
Prepayments, deposits and other receivables	19	19,360	8,130
Financial assets at fair value through profit or loss	20	2,230	13,190
Bank balances and cash	21	9,174	30,285
		183,598	212,172
Current liabilities			
Trade and bills payables	22	22,794	45,648
Other payables and accruals	23	5,806	14,794
Bank borrowings	24	13,000	12,850
Lease liabilities	28	1,028	1,858
Current tax liabilities		4,663	1,195
		47,291	76,345
Net current assets		136,307	135,827

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Lease liabilities	28	1,127	2,155
		1,127	2,155
Net assets		172,157	167,596
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	3,580	3,580
Reserves	27	168,577	164,016
Total equity		172,157	167,596

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 2020

	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 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 and 1 January 2020	3,580	46,162	13,767	580	35,972	(4,710)	72,245	167,596
Profit for the year	—	—	—	—	—	—	4,563	4,563
Exchange differences on translating foreign operations	—	—	—	—	—	(2)	—	(2)
Total comprehensive income for the year	—	—	—	—	—	(2)	4,563	4,561
Transfer to statutory reserve	—	—	1,038	—	—	—	(1,038)	—
At 31 December 2020	3,580	46,162	14,805	580	35,972	(4,712)	75,770	172,157

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Profit before income tax		6,394	23,078
Adjustments for:			
Depreciation of property, plant and equipment	8	6,385	4,634
Amortisation of intangible assets	8	682	682
Interest income	7	(301)	(660)
Finance costs	9	779	456
Provision on expected credit losses on trade and bills receivables		2,926	1,588
Operating profit before working capital changes		16,865	29,778
Increase in inventories		(15,026)	(6,723)
Decrease/(increase) in trade and bills receivables		19,833	(44,417)
Increase in prepayments, deposits and other receivables		(11,688)	(112)
(Decrease)/increase in trade and bills payables, other payables and accruals		(31,842)	13,635
Cash used in operations		(21,858)	(7,839)
Income tax paid		—	(6,268)
<i>Net cash flows used in operating activities</i>		(21,858)	(14,107)
Cash flows from investing activities			
Purchases of property, plant and equipment		(8,214)	(15,238)
Proceeds from/(purchase of) financial assets at fair value through profit or loss		10,960	(6,285)
Interest received		301	660
Decrease in pledged deposit		—	3,960
<i>Net cash flows generated from/(used in) investing activities</i>		3,047	(16,903)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Interest paid		(779)	(456)
Repayments of bank borrowings		(12,850)	—
Proceed from bank borrowings		13,000	12,850
Repayments of principal portion of the lease liabilities		(1,858)	(920)
<i>Net cash flows (used in)/generated from financing activities</i>		(2,487)	11,474
Net decrease in cash and cash equivalents		(21,298)	(19,536)
Effect of exchange rate changes on cash and cash equivalents		187	43
Cash and cash equivalents as at the beginning of the year		30,285	49,778
Cash and cash equivalents as at the end of the year		9,174	30,285

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 Windward 3, Regatta Office Park, P.O. Box 1350, 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.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2020

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of a Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

None of these new or amended HKFRSs has a material impact on the Group’s results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

(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 HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ¹
Annual Improvements	Annual Improvement of HKFRS standard 2018–2020 ²
Amendments to HKAS 16	Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁴
HK Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴
HKFRS 17	Insurance Contracts ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵

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

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

⁴ Effective for annual periods beginning on or after 1 January 2023.

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform — Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “Reform”). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

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

Annual Improvements to HKFRSs 2018–2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to HKFRSs.
- HKFRS 9, Financial Instruments, which clarify the fees included in the ‘10 per cent’ test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other’s behalf are included.
- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The Directors of the Company is currently assessing the impact that the application of the amendments will have on the Group’s consolidated financial statements.

Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Directors of the Company is currently assessing whether the application of the amendments will have any material impact on the Group’s consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The Directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

HKFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a ‘General Model’, which is modified for insurance contracts with direct participation features, described as the ‘Variable Fee Approach’. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The Directors of the Company do not anticipate that the application of this standard in the future will have an impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors of the Company anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transaction arise.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 (Note 30), 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 2020

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 of 5 years
Computer Software	Over the shorter of lease term or useful life of 5 years

(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 (Note 4(i)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 entirety 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 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 2020

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 2020

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 contract 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)(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 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 does not 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 2020

4. Significant Accounting Policies (Continued)

(h) Leasing

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 its 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

(h) Leasing (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.

(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 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 2020

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. The net carrying amount of inventory was approximately RMB38,413,000 (2019: RMB23,387,000). No impairment recognised the respect of inventory for the year ended 31 December 2020 and 2019.

(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 net carrying amount of trade and other receivable was approximately RMB123,668,000 (2019: RMB167,683,000) and the provision on expected credit losses on trade and other receivables was approximately RMB2,926,000 (2019: RMB1,588,000). For the detail credit policy and credit risk arising from trade and other receivable are set out in Note 35.

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:

	2020 RMB'000	2019 RMB'000
Client A	N/A*	43,905
Client B	N/A*	43,622
Client C	21,596	N/A*
Client D	19,495	N/A*
Client E	17,166	N/A*
Client F	15,693	N/A*

* Revenue did not contribute over 10% of the Group's revenue for the corresponding years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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, LED lighting products and subcontracting service.

The sales contract terms do not allow rebate, discount, warranties and return on revenue. During the years ended 31 December 2020 and 2019, there were no rebate, discount, warranties and return on revenue.

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

	2020 RMB'000	2019 RMB'000
Revenue recognised at a particular point in time		
Sales of LED beads	121,081	234,980
Sales of LED lighting products	—	6,299
Revenue recognised overtime		
Subcontracting service	914	1,981
	121,995	243,260
Other income and gains		
Bank interest income	301	660
Government grants (Note)	2,127	172
	2,428	832

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.

	2020 RMB'000	2019 RMB'000
Receivables	114,421	137,180

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

8. Profit Before Income Tax Expense

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

	2020 RMB'000	2019 RMB'000
Cost of inventories sold	83,192	170,693
Depreciation charge (Note 15):		
— Owned property, plant and equipment	4,611	3,826
— Right-of-use-assets included within:		
— Property	325	325
— Machinery	1,449	483
Amortisation of intangible assets, included in cost of sales	682	682
Auditor's remuneration	824	875
Research and development costs, included in administrative and other expenses	8,335	14,046
Employee costs (including Directors' remuneration) (Note 10)		
— Wages, salaries and other benefits	8,014	7,878
— Contribution to defined contribution pension plans	581	1,267
Listing expenses (Note)	—	9,055
Exchange gain, net	—	(39)

Note: 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

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	600	309
Interest on lease liabilities	179	147
	779	456

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 2020				
<i>Executive Directors:</i>				
Mr. Zhao Yi Wen	320	89	13	422
Mr. Lin Qi Jian	213	89	13	315
Mr. Chan Wing Kin	—	639	16	655
<i>Non-executive Director:</i>				
Mr. Chiu Kwai San	107	—	—	107
<i>Independence Non-executive Directors:</i>				
Professor Chow Wai Shing, Tommy	107	—	—	107
Mr. Wu Ming Kuen, B.B.S.	107	—	—	107
Mr. Chan Chung Kik, Lewis	107	—	—	107
Total	961	817	42	1,820
Year ended 31 December 2019				
<i>Executive Directors:</i>				
Mr. Zhao Yi Wen	317	89	12	418
Mr. Lin Qi Jian	211	89	12	312
Mr. Chan Wing Kin	—	634	16	650
<i>Non-executive Director:</i>				
Mr. Chiu Kwai San	106	—	—	106
<i>Independence Non-executive Directors:</i>				
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

11. Five Highest Paid Individuals

The five highest paid individuals of the Group for the year included 3 (2019: 3) Directors whose emoluments are reflected in the disclosures in Note 10. The emoluments of the remaining 2 (2019: 2) highest paid individuals for the year are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	117	117
Performance related bonuses	44	44
Contribution to defined contribution pension plans	9	11
	170	172

Their remuneration fell within the following bands:

	2020 No. of individuals	2019 No. of individuals
Nil to HKD1,000,000	2	2

During the years ended 31 December 2020 and 2019, 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 2020 and 2019. For the year ended 31 December 2020, the first HK\$2,000,000 of profits earned by one of the group companies will be taxed at a rate of 8.25% whilst the remaining profits will continue to be taxed at 16.5%. No provision for Hong Kong profits tax has been made as the Group's Hong Kong subsidiary had no estimated assessable profits for the year (2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

12. Income Tax Expense (Continued)

In 2017, the Group's wholly-owned subsidiary, Zhuhai HongGuang Semiconductor Company Limited ("Zhuhai HongGuang"), previously known as Zhuhai HongGuang Lighting Fixture Company Limited, was awarded a "New and High Technology Enterprise Certificate" (the "Certificate") (高新技術企業證書). The Certificate has to be renewed over three years. In 2019, the Group has successfully renewed the Certificate for three years commencing from 1 January 2019. 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 2020 and 2019.

	2020 RMB'000	2019 RMB'000
Current income tax — PRC EIT		
— tax for the year	3,468	5,532
Deferred tax (Note 25)	(1,637)	268
	1,831	5,800

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:

	2020 RMB'000	2019 RMB'000
Profit before income tax expense	6,394	23,078
At the PRC's statutory enterprise income tax rate of 15% (2019: 15%)	959	3,462
Effect of different tax rates of subsidiaries operating in other jurisdiction	(87)	(234)
Effect of non-deductible expenses	966	2,572
Effect of non-taxable income	(7)	—
Income tax expense	1,831	5,800

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 RMB4,563,000 (2019: RMB17,278,000), and the weighted average number of ordinary shares of 400,000,000 issued during the year ended 31 December 2020 (2019: 400,000,000). The Company did not have any potential dilutive shares for the years ended 31 December 2020 and 2019. 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 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 31 December 2018 as originally presented	—	35,480	148	79	200	35,907
Initial application of HKFRS16	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 and 1 January 2020	2,035	53,918	148	92	200	56,393
Additions	—	8,214	—	—	—	8,214
Exchange adjustment	—	(497)	—	—	—	(497)
At 31 December 2020	2,035	61,635	148	92	200	64,110
Accumulated depreciation						
At 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 and 1 January 2020	325	23,832	135	72	78	24,442
Depreciation charge for the year	325	6,035	—	7	18	6,385
Exchange adjustment	—	(308)	—	—	—	(308)
At 31 December 2020	650	29,559	135	79	96	30,519
Net book value						
At 31 December 2020	1,385	32,076	13	13	104	33,591
At 31 December 2019	1,710	30,086	13	20	122	31,951

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 2020 and 2019, the carrying amount of the Group's machinery includes an amount of RMB0.9 million (2019: 2.4 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 2020

16. Intangible Assets

	Patent sublicense	Computer Software	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	3,600	465	4,065
Accumulated amortisation			
At 1 January 2019	1,694	109	1,803
Amortisation charge for the year	635	47	682
At 31 December 2019 and 1 January 2020	2,329	156	2,485
Amortisation charge for the year	635	47	682
At 31 December 2020	2,964	203	3,167
Net Book Value			
At 31 December 2020	636	262	898
At 31 December 2019	1,271	309	1,580

17. Inventories

	2020	2019
	RMB'000	RMB'000
Raw materials	33,702	13,797
Finished goods	4,711	9,590
	38,413	23,387

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

18. Trade and Bills Receivables

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

	2020 RMB'000	2019 RMB'000
Trade receivables	111,615	132,153
Bills receivable	2,806	5,027
	114,421	137,180

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 which 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.

As at 31 December 2020, the Group pledged the bills receivable of approximately RMB0.7 million (2019: nil) for bills payable issued by the Group.

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.

	2020 RMB'000	2019 RMB'000
0 to 30 days	34,877	46,261
31 to 60 days	11,706	23,005
61 to 90 days	9,672	20,968
91 to 120 days	14,616	14,246
121 to 365 days	19,753	33,334
Over 1 year	30,227	2,870
	120,851	140,684
Less: Impairment of trade and bills receivables (Note 35)	(6,430)	(3,504)
	114,421	137,180

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

19. Prepayments, Deposits and Other Receivables

	2020 RMB'000	2019 RMB'000
Other receivables	73	218
Prepayments and deposits (Note)	19,940	8,107
	20,013	8,325
Less: non-current portion		
Prepayments and deposits for acquisition of property, plant and equipment	(653)	(195)
Current portion	19,360	8,130

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 RMB17,999,000 (2019: RMB7,633,000) for purchase of raw material.

20. Financial assets at fair value through profit or loss

As at 31 December 2020 and 2019, 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 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

20. Financial assets at fair value through profit or loss (Continued)

The balance of financial assets at fair value through profit or loss as at 31 December 2019 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 as at 31 December 2019.

21. Bank Balances and Cash

	2020 RMB'000	2019 RMB'000
Bank balances and cash	9,174	30,285
Denominated in RMB	8,861	26,841
Denominated in HK\$	312	3,443
Denominated in US\$	1	1

The bank balances are deposited with creditworthy banks with no history of default. The carrying amounts of the bank balances and cash approximated their fair values at the end of the reporting period. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

22. Trade and Bills Payables

	2020 RMB'000	2019 RMB'000
Trade payables	22,126	33,314
Bills payable	668	12,334
	22,794	45,648

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:

	2020 RMB'000	2019 RMB'000
0 to 30 days	13,407	12,748
31 to 60 days	4,064	8,693
61 to 90 days	2,779	10,140
91 to 120 days	1,764	4,786
121 to 365 days	672	9,076
Over 1 year	108	205
	22,794	45,648

23. Other Payables and Accruals

	2020 RMB'000	2019 RMB'000
Accrued payroll	607	652
Deposits received	15	18
Other payables and accruals	4,884	11,710
Other tax payables	300	2,414
	5,806	14,794

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

24. Bank Borrowings

	2020 RMB'000	2019 RMB'000
Unsecured interest-bearing bank borrowings:		
— Repayable on demand or within one year from the reporting date	13,000	12,850

As at 31 December 2020, the effective interest rates of the unsecured interest-bearing bank borrowings were ranging from 3.80% to 4.55% (2019: from 4.35% to 5.17%) per annum.

25. Deferred Tax Assets

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

	Impairment of trade and bills receivables RMB'000	Write off of inventories RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1 January 2019	479	4	(17)	466
Credited/(charged) to profit or loss (Note 12)	396	—	(664)	(268)
At 31 December 2019 and 1 January 2020	875	4	(681)	198
Credited to profit or loss (Note 12)	731	—	906	1,637
At 31 December 2020	1,606	4	225	1,835

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	1,835	879
Deferred tax liabilities	—	(681)
	1,835	198

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 2020 and 2019, 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 for RMB133,797,000 (2019: RMB124,461,000). 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 2020 in the foreseeable future. Accordingly, no deferred tax liabilities have been recognised as at 31 December 2020 and 2019.

26. Share Capital

	Number of ordinary shares	RMB'000
Issued and fully paid:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	400,000,000	3,580

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

27. Reserves

Details of the movements on the Group's reserves for the years ended 31 December 2020 and 2019 is presented in the consolidated statement of changes in equity. Movements on the Company's reserves are as follows:

The Company

	Share premium	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
	(Note (a))	(Note (f))	
At 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 and 1 January 2020	46,162	(24,546)	21,616
Loss for the year	—	(5,027)	(5,027)
Total comprehensive income for the year	—	(5,027)	(5,027)
At 31 December 2020	46,162	(29,573)	16,589

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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, it is required to appropriate 10% of the annual net profits of the PRC subsidiary, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

28. Leases

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 included in property, plant and equipment (Note 15) are as follows:

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Properties leased for own use, carried at depreciated cost	1,385	1,710
Machinery, carried at depreciated cost	966	2,415

Lease liabilities

Future lease payments are due as follows:

	Minimum lease payments	Future interest	Present-value
	31 December 2020	31 December 2020	31 December 2020
	RMB'000	RMB'000	RMB'000
Not later than one year	1,102	74	1,028
Later than one year and not later than two years	371	41	330
Later than two years and not later than five years	835	38	797
	2,308	153	2,155

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

28. Leases (Continued)**Nature of leasing activities (in the capacity as lessee) (Continued)**

Lease liabilities (Continued)

	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
Later than five years	93	1	92
	4,346	333	4,013

The present value of future lease payments are analysed as:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Current liabilities	1,028	1,858
Non-current liabilities	1,127	2,155
	2,155	4,013

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 2020 and 2019.

29. Capital Commitments

	2020 RMB'000	2019 RMB'000
Commitments for the acquisition of property, plant and equipment	393	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

30. Holding Company Statement of Financial Position

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		7	7
		7	7
Current assets			
Amounts due from subsidiaries		22,606	27,176
Cash and cash equivalents		245	2,723
		22,851	29,899
Current liabilities			
Other payables		2,689	4,710
		2,689	4,710
Net assets		20,169	25,196
EQUITY			
Share capital	26	3,580	3,580
Reserves	27	16,589	21,616
Total equity		20,169	25,196

On behalf of the Directors

Zhao Yi Wen
 Director

Lin Qi Jian
 Director

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

31. Investment in Subsidiaries

Details of the subsidiaries as at 31 December 2020 and 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 Semiconductor Company Limited*, previously known as 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.

* Zhuhai HongGuang Semiconductor Company Limited is registered as a wholly-foreign-owned enterprise under PRC law.

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	
		2020 RMB'000	2019 RMB'000
珠海經濟特區利佳電子發展有限公司	Utility expense (Note (ii))	2,143	2,242
珠海經濟特區利佳電子發展有限公司	Rental expense (Note (iii))	302	290
珠海經濟特區利佳電子發展有限公司	Interest on lease liability (Note (iii))	69	81
		2,514	2,613

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Related Party Transactions (Continued)

(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:

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	1,350	1,340
Pension scheme contributions	42	40
	1,392	1,380

33. Notes Supporting Cash Flow Statement

(a) Cash and cash equivalents comprise

	2020 RMB'000	2019 RMB'000
Bank balances and cash available on demand	9,174	30,285

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

33. Notes Supporting Cash Flow Statement (Continued)**(b) Reconciliation of liabilities arising from financing activities**

	Bank borrowings	Lease liabilities
	RMB'000	RMB'000
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 and 1 January 2020	12,850	4,013
Change from cash flow:		
Proceed from bank borrowings	13,000	—
Repayment of bank borrowings	(12,850)	—
Repayment of principal portion of the lease liabilities	—	(1,858)
Interest paid	(600)	(179)
Total change from cash flow	(450)	(2,037)
Other change		
Interest expenses	600	179
Total other change	600	179
At 31 December 2020	13,000	2,155

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

34. Summary of Financial Assets and Financial Liabilities

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

	2020 RMB'000	2019 RMB'000
Financial assets		
Measured at amortised cost	123,668	167,683
Fair value through profit or loss	2,230	13,190
Financial liabilities		
Measured at amortised cost	43,455	74,891

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

34. Summary of Financial Assets and Financial Liabilities (Continued)**(b) Financial instruments measured at fair value (Continued)**

Significant unobservable inputs

	2020	2019
Default rate	0.05%	0.05%
Recovery rate	35.13%	35.13%

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 2020				
Financial assets at fair value through profit or loss	—	—	2,230	2,230

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 2019				
Financial assets at fair value through profit or loss	—	—	13,190	13,190

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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.

Except for trade receivables, the credit risk of the Group's other financial assets, which comprise 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 2020

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 2020, the Group has a certain concentration of credit risk as approximately 45% (2019: 61%) 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 2020

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	0.28%	50,701	144
Past due for less than 30 days	0.28%	8,307	24
Past due for more than 30 days but less than 90 days	0.28%	7,624	22
Past due for more than 90 days but less than 120 days	1.50%	648	10
Past due for more than 120 days but less than 365 days	1.50%	1,437	21
Over 365 days	6.19%	690	43
		69,407	264

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

35. Financial Risk Management (Continued)**Credit risk (Continued)**

31 December 2020 (Continued)

Grade 2

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	2.67%	7,805	208
Past due for less than 30 days	2.67%	3,405	91
Past due for more than 30 days but less than 90 days	2.67%	2,493	67
Past due for more than 90 days but less than 120 days	4.36%	50	2
Past due for more than 120 days but less than 365 days	4.36%	16,551	722
Over 365 days	20.05%	15,468	3,102
		45,772	4,192

Grade 3

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Past due for more than 365 days	68.88%	2,866	1,974
		2,866	1,974

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

35. Financial Risk Management (Continued)**Credit risk (Continued)**

31 December 2019

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	1.00%	60,937	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
		98,346	983

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	66.00%	2,870	1,895
		2,870	1,895

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	3,504	1,916
Provision on expected credit losses	2,926	1,588
Balance at 31 December	6,430	3,504

The following significant changes in the gross carrying amounts of trade and bills receivables contributed to the increase in the loss allowance during 2020:

- Increase in long overdue trade receivable resulted in an increase in loss allowance at approximately RMB2,926,000 (2019: RMB1,588,000).

Liquidity risk

The Group's 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 2020						
Trade and bills payables	22,794	22,794	22,794	—	—	—
Other payables and accruals	5,506	5,506	5,506	—	—	—
Bank borrowings	13,000	13,225	13,225	—	—	—
Lease liabilities	2,155	2,308	1,102	371	835	—
	43,455	43,833	42,627	371	835	—

	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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:

	2020 RMB'000	2019 RMB'000
Trade and bills payables	22,794	45,648
Other payables and accruals	5,806	14,794
Bank borrowings	13,000	12,850
Less: Bank balances and cash	(9,174)	(30,285)
Net debt	32,426	43,007
Equity	172,157	167,596
Net debt-to-equity ratio	19%	26%

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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 2020:

On 24 February 2021, the Company entered into a Sales and Purchase Agreement (the “**SPA**”) with independent third parties, to acquire GSR GO Holding Corporation (the “**GSR GO**”) together with its subsidiaries (the “**GSR GO Group**”), at a total consideration of HK\$76,800,000 involving issue of consideration shares at the issue price of HK\$0.96 per consideration share. The GSR GO Group is principally engaged in the research and development of fast charging solutions for battery system. Upon completion under the SPA, GSR GO will become a wholly-owned subsidiary of the Company.

The details of the aforesaid transaction are set out in the Company’s announcement dated 25 February 2021. As at the date of this report, the acquisition is pending completion under the SPA.

38. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2021.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from published audited financial statements and restated/reclassified as appropriate, is set out below:

Results

	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	121,995	243,260	203,747	116,737	141,990
Profit before income tax expense	6,394	23,078	29,036	13,494	13,007
Income tax expense	(1,831)	(5,800)	(5,140)	(661)	(7,121)
Profit for the year	4,563	17,278	23,896	12,833	5,886

Assets and Liabilities

	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	220,575	246,096	198,948	144,891	176,663
Total liabilities	48,418	78,500	48,738	19,266	62,094
Total equity	172,157	167,596	150,210	125,625	114,569