# 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: 8343)**

## ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

### CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on the GEM are generally small and mid-sized companies, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.**

*This announcement, for which the directors (the "Directors") of HongGuang Lighting Holdings Company Limited (the "Company", together with its subsidiaries, the "Group") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

## FINANCIAL HIGHLIGHTS

| **Year ended 31 December (RMB'000)** | **2017** | 2016* | Percentage Change |
|---|---|---|---|
| Revenue | **116,737** | 141,990 | –17.8% |
| Cost of sales | **(91,626)** | (108,802) | –15.8% |
| Gross profit | **25,111** | 33,188 | –24.3% |
| Profit before income tax expense | **13,494** | 13,007 | 3.7% |
| Net profit | **12,833** | 5,886 | 118.0% |
| Earnings per share (RMB) | **0.0321** | 0.0196 | 63.8% |
| Total assets | **144,891** | 176,663 | –18.0% |
| Total equity | **125,625** | 114,569 | 9.7% |
| **Key Financial Ratios** | | | |
| Gross profit margin (%) | **21.5** | 23.4 | |
| Net profit margin (%) | **11.0** | 4.1 | |
| Return on equity (%) | **10.2** | 5.1 | |
| Return on assets (%) | **8.9** | 3.3 | |
| Current ratio | **6.4** | 2.5 | |
| Gearing ratio (%) | **N/A** | 12.8 | |

* The Company was listed on GEM of the Stock Exchange on 30 December 2016.

## ANNUAL RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the consolidated annual results of the Group for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2017*

| | *Notes* | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|---|
| **Revenue** | *5* | **116,737** | 141,990 |
| Cost of sales | | **(91,626)** | (108,802) |
| **Gross profit** | | **25,111** | 33,188 |
| Other income and gains | *5* | **2,288** | 175 |
| Selling and distribution expenses | | **(1,301)** | (1,175) |
| Administrative and other expenses | | **(12,461)** | (18,503) |
| Finance costs | *6* | **(143)** | (678) |
| **Profit before income tax expense** | *7* | **13,494** | 13,007 |
| Income tax expense | *8* | **(661)** | (7,121) |
| **Profit for the year attributable to owners of the Company** | | **12,833** | 5,886 |
| **Other comprehensive income** | | | |
| **Item that may be reclassified to profit or loss:** | | | |
| Exchange differences on translating foreign operations | | **(1,777)** | (2,370) |
| **Total comprehensive income for the year attributable to owners of the Company** | | **11,056** | 3,516 |
| **Earnings per share attributable to owners of the Company** | | | |
| — Basic and diluted (RMB cents) | *9* | **3.21** | 1.96 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **17,739** | 14,357 |
| Intangible assets | | **2,944** | 3,626 |
| Deferred tax assets | | **797** | 548 |
| | | **21,480** | 18,531 |
| **Current assets** | | | |
| Inventories | | **16,058** | 11,126 |
| Trade and bills receivables | *11* | **87,111** | 89,219 |
| Prepayments and other receivables | *12* | **4,427** | 57,210 |
| Cash and cash equivalents | | **15,815** | 577 |
| | | **123,411** | 158,132 |
| **Current liabilities** | | | |
| Trade payables | *13* | **10,956** | 25,715 |
| Other payables and accruals | | **7,664** | 19,158 |
| Borrowings | *14* | **—** | 14,700 |
| Current tax liabilities | | **646** | 2,521 |
| | | **19,266** | 62,094 |
| **Net current assets** | | **104,145** | 96,038 |
| **Net assets** | | **125,625** | 114,569 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *15* | **3,580** | 3,580 |
| Reserves | | **122,045** | 110,989 |
| **Total equity** | | **125,625** | 114,569 |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2017*

### 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. Its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 December 2016 with stock code "8343".

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

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

### 2. BASIS OF PREPARATION

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("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 GEM of the Stock Exchange.

### 3. ADOPTION OF HKFRSs

**(a) Adoption of new/revised HKFRSs — effective 1 January 2017**

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Annual Improvements to HKFRSs 2014–2016 Cycle | Amendments to HKFRS 12, Disclosure of Interests in Other Entities |

***Amendments to HKAS 7 — Disclosure Initiative***

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Entities are not required to give comparative information in the first period in compliance with the disclosure requirement in HKAS 7 paragraphs 44A to 44E. The Group's bank borrowings with carrying amount of RMB14,700,000 as at 31 December 2016 were fully settled and no further bank borrowings were raised during the year ended 31 December 2017. No additional disclosure as transitional provision adopted.

***Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses***

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group did not have such instruments measured at fair value.

***Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKFRS 12, Disclosure of Interests in Other Entities***

Annual improvements to HKFRSs (2014–2016 cycle) include an amendment to HKFRS 12 that clarifies that, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5 *Non-current Assets held for Sale and Discontinued operations*, it is not required to disclose summarised financial information for that subsidiary, joint venture or associate, as required by HKFRS 12 *Disclosure of Interests in Other Entities*.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements.

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

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

| | |
|---|---|
| Amendments to HKFRS 2 | Classification and Measurement of Share-Based Payment Transactions[1] |
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1] |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| HKFRS 16 | Leases[2] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |
| HKFRS 17 | Insurance Contract[3] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021

***Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions***

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

***HKFRS 9 — Financial Instruments***

The HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Directors anticipate that the application of HKFRS 9 in the future will have an impact on amounts reported in respect of the Group's financial performance and financial assets (e.g. impairment on trade receivables) resulting from early provision of credit losses using the expected loss impairment model under HKFRS 9 instead of incurred loss model under HKAS 39. Currently, the Directors are in the midst of assessing the financial impact of the application of HKFRS 9 and a reasonable estimate of the effect will be available once the detailed review is completed.

***HKFRS 15 — Revenue from Contracts with Customers***

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Directors anticipate that the application of HKFRS 15 in the future have no significant impact on the amounts reported on revenue and may result more disclosures relating to revenue is required.

*HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration*

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Total foreign currency transactions of the Group for the year ended 31 December 2017 amounted to approximately RMB792,000 (2016: RMB3,372,000). All of the foreign currency transactions are in USD. The Directors do not expect the adoption of HK(IFIC)-Int 22 as compared with the current accounting policy would result in significant impact on the Group's results.

*Amendments to HKFRS 9 — Prepayment Features with Negative Compensation*

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

The Directors anticipate the application of Amendments to HKFRS 9 have no impact as the Group do not have prepayable financial assets with negative compensation.

*HKFRS 16 — Leases*

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirement of HKAS 16 "Property, Plant and Equipment", while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

Total operating lease commitments of the Group in respect of office premises as at 31 December 2017 amounted to approximately RMB2,826,000 (2016: RMB3,215,000). The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

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

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

***HKFRS 17 — Insurance Contract***

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

## 4. 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, manufacture 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.

The following customers with transactions have exceeded 10% of the Group's revenue. During the year ended 31 December 2017, revenue derived from these customers is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Client A | **43,857** | 30,544 |
| Client B | **19,399** | 44,088 |

## 5. 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.

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

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Revenue** | | |
| Sales of LED beads | **115,945** | 137,163 |
| Sales of LED lighting products | **792** | 4,827 |
| | **116,737** | 141,990 |
| **Other income and gains** | | |
| Bank interest income | **11** | 2 |
| Gain on disposal of property, plant and equipment | **54** | — |
| Government grants *(Note)* | **1,991** | 173 |
| Others | **232** | — |
| | **2,288** | 175 |

*Note:* The amount represents the government subsidy for the Group's technology advancement during the year.

## 6. FINANCE COSTS

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest on bank borrowings repayable within five years | **143** | 678 |

## 7. PROFIT BEFORE INCOME TAX EXPENSE

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

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of inventories sold | **91,626** | 108,802 |
| Depreciation of property, plant and equipment | **2,864** | 2,551 |
| Amortisation of intangible assets, included in cost of sales | **682** | 439 |
| Impairment loss on trade receivables | **330** | 392 |
| Auditors' remuneration | **821** | 582 |
| Operating lease rental in respect of building | **390** | 390 |
| Research and development costs | **1,220** | 1,032 |
| Employee costs (including Directors' remuneration) | | |
| — Wages, salaries and other benefits | **6,521** | 5,251 |
| — Contribution to defined contribution pension plans | **1,057** | 1,000 |
| Listing expenses | **—** | 10,851 |
| Exchange loss, net | **80** | 49 |

## 8. 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 2017 and 2016.

During the year ended 31 December 2016, provision for the enterprise income tax (the "EIT") in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the relevant income tax law in the PRC.

In 2017, the Group's wholly-owned subsidiary, Zhuhai HongGuang Lighting Fixture Company Limited ("Zhuhai HongGuang") (珠海宏光照明器材有限公司) was awarded a "New and High Technology Enterprise Certificate" (高新技術企業證書). As a result, Zhuhai HongGuang is entitled to a tax preference with a reduction of the EIT rate from 25% to 15% for the period from 1 January 2016 to 31 December 2018. The over-provision for approximately RMB2,550,000 representing the over-provision EIT for the year ended 31 December 2016 after the Company obtained this concession in 2017.

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current income tax — PRC EIT | | |
| — tax for the year | **3,460** | 6,474 |
| — (Over)/under provision in respect of prior years | **(2,550)** | 599 |
| Deferred tax | **(249)** | 48 |
| | **661** | 7,121 |

## 9. EARNINGS PER SHARE

The basic earnings per share for the year is calculated based on the profit attributable to owners of the Company of RMB12,833,000 (2016: RMB5,886,000), and the weighted average number of ordinary shares of 400,000,000 issued during the year ended 31 December 2017 (2016: 300,546,000).

The Company did not have any potential dilutive shares for the years ended 31 December 2017 and 2016. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

## 10. DIVIDEND

No dividend has been paid or declared by the Company for the years ended 31 December 2017 and 2016.

## 11. TRADE AND BILLS RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **85,378** | 84,302 |
| Bills receivable | **1,733** | 4,917 |
| | **87,111** | 89,219 |

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days, extending up to 90 days for major customers. The Group seeks to maintain control over its outstanding receivables and overdue balances are reviewed regularly by senior management. There is a certain concentration of credit risk.

The aging analysis of the trade and bills receivables, based on the invoice dates, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 to 30 days | **21,328** | 22,865 |
| 31 to 60 days | **15,774** | 23,927 |
| 61 to 90 days | **11,984** | 14,425 |
| 91 to 120 days | **7,264** | 8,619 |
| 121 to 365 days | **30,114** | 19,398 |
| Over 1 year | **3,866** | 2,874 |
| | **90,330** | 92,108 |
| Less: Impairment of trade and bills receivables | **(3,219)** | (2,889) |
| | **87,111** | 89,219 |

The aging analysis of the trade and bills receivables which were past due but not impaired is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Past due for less than 30 days | **10,165** | 7,091 |
| Past due for more than 30 days but less than 60 days | **10,010** | 13,219 |
| Past due for more than 60 days but less than 90 days | **8,389** | 6,348 |
| Past due for more than 90 days but less than 120 days | **2,983** | 2,772 |
| Past due for more than 120 days | **12,660** | 2,734 |
| | **44,207** | 32,164 |

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

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

## 12. PREPAYMENTS AND OTHER RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Other receivables *(note (i))* | **51** | 56,439 |
| Prepayments *(note (ii))* | **4,376** | 771 |
| | **4,427** | 57,210 |

*Notes:*

(i) The amount includes receivable of proceeds from share placing during the year ended 31 December 2016, The balance has been fully received in January 2017.

(ii) The amounts includes the prepayment to the independent third parties suppliers amounted to approximately RMB3,584,000 for purchases of raw material.

## 13. TRADE PAYABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **10,956** | 25,715 |

The credit period granted from suppliers normally ranges from 30 to 120 days. The aging analysis of trade payables, based on invoice date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 to 30 days | **3,132** | 12,989 |
| 31 to 60 days | **2,381** | 4,782 |
| 61 to 90 days | **1,128** | 1,303 |
| 91 to 120 days | **1,297** | 218 |
| 121 to 365 days | **538** | 681 |
| Over 1 year | **2,480** | 5,742 |
| | **10,956** | 25,715 |

## 14. BORROWINGS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Secured interest-bearing bank borrowings: | | |
| — Repayable on demand or within one year | **—** | 14,700 |

During the year ended 31 December 2016, the Group's bank borrowings are secured by leasehold land and building held by a related company with common shareholders, corporate guarantee from a related company with common shareholders, personal guarantees from the Company's shareholders, Mr. Zhao Yi Wen and Mr. Lin Qi Jian, who are also the Directors of the Company.

The effective interest rates on the Group's bank borrowings for the year were 5.05% (2016: 5.05%).

All of the banking facilities were subject to the fulfillment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the borrowings would become repayable on demand. The Group regularly monitors its compliance with these covenants. At the end of each of reporting period, none of the covenants related to drawn down facilities had been breached.

During the year ended 31 December 2017, all the bank borrowings were fully settled.

## 15. SHARE CAPITAL

The following changes in the Company's authorised and issued share capital took place for the years ended 31 December 2017 and 31 December 2016.

| | Number of ordinary shares | *RMB'000* |
|---|---|---|
| **Authorised:** | | |
| At 31 December 2017 (10,000,000,000 shares of HK$0.01 each) | 10,000,000,000 | 89,500 |
| **Issued and fully paid:** | | |
| Upon incorporation (1,000 shares of HK$0.01 issued and fully paid), 31 December 2015 and 1 January 2016 | 1,000 | — |
| Capitalisation issue credited as fully paid on the share premium account of the Company *(Note (i))* | 299,999,000 | 2,685 |
| Share issued on placing *(Note (ii))* | 100,000,000 | 895 |
| At 31 December 2016, 1 January 2017 and 31 December 2017 | 400,000,000 | 3,580 |

*Notes:*

(i) Pursuant to the resolution passed on 2 December 2016, 299,999,000 shares were allotted and issued at par to the holders of shares on the register of members of the Company at the close of business on 2 December 2016 in proportion to their respective shareholdings by way of capitalisation. All the shares issued by way of capitalisation are rank *pari passu* in all respects with the existing issued shares.

(ii) Pursuant to the share placing on 30 December 2016, 100,000,000 shares of HK$0.01 each were issued at a price of HK$0.63 per share. Accordingly, the Company's share capital was increased by RMB895,000 and the balance of the proceeds of RMB55,490,000 after deducting the listing expenses of RMB6,643,000 was credited to the share premium account.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Board hereby presents the annual results of the Group for the year ended 31 December 2017 (the "**Year**" or "**2017**"), together with the comparative figures for the corresponding year ended 31 December 2016 (the "**Previous Year**" or "**2016**").

### Business Activities

The Group is principally engaged in the design, development, manufacturing and sales of light-emitting diode ("**LED**") beads and LED lighting products in the People's Republic of China (the "**PRC**"). Since the Company's listing, there has been no significant change in the business operations of the Group. During the Year, the Group generally recognised revenue from the sale of LED beads and LED lighting products upon delivery of our products to our customers with their acceptance of our products.

### Business Review

The Group's revenue decreased from approximately RMB142.0 million for the year ended 31 December 2016 to approximately RMB116.7 million for the year ended 31 December 2017, primarily due to a number of our downstream customers experienced sales downturn and reduced their purchases from the Group. In addition, business operations at Zhuhai HongGuang Lighting Fixture Company Limited* ("**Zhuhai HongGuang**") was temporarily disrupted in late August 2017 as super typhoon Hato swept through southern China and made landfall over Zhuhai city, where Zhuhai HongGuang's production facility is located. The operation at Zhuhai HongGuang has fully resumed since September 2017.

Profit for the year ended 31 December 2017 amounted to approximately RMB12.8 million (approximately RMB5.9 million for the year ended 31 December 2016), which represents an increase of approximately RMB6.9 million or approximately 116.9% as compared to the Previous Year. Such increase is mainly due to (i) the recognition as other income and gains of government grants of approximately RMB1.9 million granted to Zhuhai HongGuang. Consequently, the amount of other income and gains for the Year increased from approximately RMB0.2 million in the Previous Year to approximately RMB2.3 million; (ii) Zhuhai HongGuang is entitled to a reduction in the rate of enterprise income tax from 25% to 15%; (iii) the recognition of income tax credit of approximately RMB2.6 million which results in a reduction of enterprise income tax payable; and (iv) the absence of the listing expenses in 2017 (approximately RMB10.9 million of listing expenses were recognised in administrative and other expenses in 2016).

During the Year, Zhuhai HongGuang obtained a "New and High Technology Enterprise Certificate" (高新技術企業證書) jointly issued by the Guangdong Provincial Department of Science and Technology* (廣東省科學技術廳), the Department of Finance of Guangdong Province* (廣東省財政廳), the Guangdong Provincial Office of the State Administration of Taxation* (廣東省國家稅務局) and the Guangdong Local Taxation Bureau* (廣東省地方稅務局). Upon being recognised as an enterprise of new and high technology, Zhuhai HongGuang is entitled to a preferential enterprise income tax rate of 15% for the three consecutive years commencing from 2016.

Moreover, Zhuhai HongGuang has successfully registered two new utility patents in the PRC during 2017. As at 31 December 2017, the Group is the registered proprietor of 17 patents in the PRC.

The Hong Kong-Zhuhai-Macao Bridge, which targets to open in the near future, will accelerate the economic integration of the Pearl River Delta and its neighbouring provinces, and enhance the attractiveness of the Western Pearl River Delta to external investment, which is conducive to the upgrading of its industry structure. As the Group's business activities are principally based in Zhuhai, the Group is likely to benefit from this transformation and the myriad business opportunities ahead.

The remarkable development in the PRC's LED industry over the past few years has intensified the competition among the market players, leading to a gradual reduction in selling prices of LED products. However, as the PRC continues to promote energy-saving business and domestic manufacturing, and the demand for small-sized backlight LED products which are essential for the production of electronic products such as smartphones is expected to remain strong, the Group stays cautiously optimistic about the industry's operating environment.

**Financial Review**

***Revenue***

For the year ended 31 December 2017, total revenue was approximately RMB116.7 million, representing a decrease of approximately 17.8% as compared with the Previous Year (2016: approximately RMB142.0 million). The decline was attributable to the decrease in revenue from the sales of both LED beads and LED lighting products.

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| LED beads | **115,945** | **99.3** | 137,163 | 96.6 |
| LED lighting products | **792** | **0.7** | 4,827 | 3.4 |
| Total | **116,737** | **100.0** | 141,990 | 100.0 |

For the year ended 31 December 2017, revenue from LED beads amounted to approximately RMB115.9 million (2016: approximately RMB137.2 million), accounting for 99.3% of the total revenue (2016: 96.6%). The decline in revenue was mainly due to a decrease in sales volume during the Year and also a decrease in the average selling price of approximately 2.2%.

Revenue from LED lighting products during the Year amounted to approximately RMB0.8 million (2016: approximately RMB4.8 million), representing 0.7% of the total revenue (2016: 3.4%).

### *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 15.8% from approximately RMB108.8 million for the year ended 31 December 2016 to approximately RMB91.6 million for the year ended 31 December 2017, reflecting a decrease in the sales volume of the LED beads and LED lighting products, which mainly led to the decrease in the cost of material used.

### *Gross Profit and Gross Profit Margin*

The gross profit decreased from approximately RMB33.2 million for the year ended 31 December 2016 to approximately RMB25.1 million for the year ended 31 December 2017. The gross profit margin decreased from 23.4% for the year ended 31 December 2016 to 21.5% for the year ended 31 December 2017. The following table sets forth a breakdown of the gross profit and the gross profit margin by segment for the periods indicated:

| | **Year ended 31 December 2017** | | Year ended 31 December 2016 | |
|---|---|---|---|---|
| | **Gross profit** | **Gross profit margin** | Gross profit | Gross profit margin |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| LED beads | **24,684** | **21.3** | 30,173 | 22.0 |
| LED lighting products | **427** | **53.9** | 3,015 | 62.4 |
| Total gross profit/gross profit margin | **25,111** | **21.5** | 33,188 | 23.4 |

The gross profit margin of LED beads slightly decreased from 22.0% for the year ended 31 December 2016 to 21.3% for the year ended 31 December 2017. Such decrease was mainly attributable to the decrease in the average selling price of LED beads of approximately 2.2% during the Year.

The gross profit margin of LED lighting products experienced a decline from 62.4% for the year ended 31 December 2016 to 53.9% for the year ended 31 December 2017. Such decrease was mainly due to the higher proportion of sales of LED lighting products with lower profit margin during the Year, as compared to the Previous Year.

### *Other Income and Gains*

Other income and gains of the Group increased by 1,150% from approximately RMB0.2 million for the year ended 31 December 2016 to approximately RMB2.3 million for the year ended 31 December 2017, which was mainly attributable to the receipt of government grants of approximately RMB1.9 million, by the Group's wholly-owned subsidiary, Zhuhai HongGuang, which was being recognised as a "New and High Technology Enterprise" (高新技術企業).

### *Selling and Distribution Expenses*

The selling and distribution expenses increased by 8.3% from approximately RMB1.2 million for the year ended 31 December 2016 to approximately RMB1.3 million for the year ended 31 December 2017. The increase in selling and distribution expenses was mainly attributable to the increase in staff costs, traveling expenses and entertainment expenses.

### *Administrative and Other Expenses*

The Group's administrative and other expenses decreased by 32.4% from approximately RMB18.5 million for the year ended 31 December 2016 to approximately RMB12.5 million for the year ended 31 December 2017. 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 the absence of listing expenses for the year ended 31 December 2017. The Group recorded listing expenses of approximately RMB10.9 million for the year ended 31 December 2016.

### *Finance Costs*

The Group's finance costs decreased by 85.7% from approximately RMB0.7 million for the year ended 31 December 2016 to approximately RMB0.1 million for the year ended 31 December 2017. Such decrease was mainly due to the full repayment of the Group's bank borrowings in 2017.

### *Listing Expenses*

For the two years ended 31 December 2016 and 31 December 2017, the Group recorded listing expenses of approximately RMB10.9 million and nil, respectively.

### *Income Tax Expense*

Income tax expense of the Group for the Year was approximately RMB0.7 million (2016: approximately RMB7.1 million). The decrease in income tax expense was primarily attributable to (i) the Group's wholly-owned subsidiary, Zhuhai HongGuang's entitlement to a tax preference with a reduction of enterprise income tax rate from 25% to 15% upon being recognised as an enterprise of new and high technology during 2017; and (ii) income tax credit of approximately RMB2.6 million recognised during 2017, in relation the enterprise income tax reduction amount for the year 2016.

### *Profit for the Year*

The profit for the year increased by approximately RMB6.9 million or approximately 116.9% from approximately RMB5.9 million for the year ended 31 December 2016 to approximately RMB12.8 million for the year ended 31 December 2017. Despite a decrease in revenue and gross profit for 2017 compared to 2016, the increase in profit for the year was mainly attributable to (i) the recognition as other income and gains of government grants of approximately RMB1.9 million granted to Zhuhai HongGuang. Consequently, the amount of other income and gains for the year increased from approximately RMB0.2 million in the Previous Year to approximately RMB2.3 million; (ii) Zhuhai HongGuang is entitled to a reduction in the rate of enterprise income tax from 25% to 15%; (iii) the recognition of income tax credit of approximately RMB2.6 million which results in a reduction of enterprise income tax payable; and (iv) the absence of listing expenses in 2017 (approximately RMB10.9 million of listing expenses were recognised in administrative and other expenses in 2016).

***Net Profit Margin***

The net profit margin was 11.0% for the year ended 31 December 2017, compared to that of 4.1% for the year ended 31 December 2016. The increase was mainly due to the increase in other income and gains, decrease in income tax expense and decrease in administrative and other expenses.

**Dividend**

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil), in order to cope with the future business development of the Group.

**Comparison between Business Objectives with Actual Business Progress**

The following is a comparison of the Group's business strategies as set out in the Company's prospectus dated 16 December 2016 (the "Prospectus") with the actual business progress up to 31 December 2017:

| **Business strategies up to 31 December 2017 as set out in the Prospectus** | **Actual business progress up to 31 December 2017** |
|---|---|
| — Expanding the production capacity | The Group has purchased 22 additional machineries for LED bead encapsulation. |
| — Developing the Group's sales channels | The Group has added three sales and marketing staff and 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. |

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

In light of the sales decline in both the LED beads and the LED lighting products during the Year, the Group has utilized the net proceeds from the Company's listing at a slower rate compared to the original plan.

**Use of Proceeds**

Based on the placing price of HK$0.63 per share, the net proceeds from the listing on 30 December 2016, after deducting the underwriting commission and other estimated expenses, amounted to approximately HK$37.4 million. The Group intended to apply such net proceeds in accordance with the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 31 December 2017, the Group's planned application and actual utilisation of the net proceeds is set out below:

| **Use of proceeds** | **Net proceeds** | **Utilised** | **Unutilised** |
|---|---|---|---|
| | *HK$ million* | *HK$ million* | *HK$ million* |
| Expansion of the Group's production capacity | 21.7 | 6.8 | 14.9 |
| Developing the Group's sales channels | 0.8 | 0.1 | 0.7 |
| Repayment of bank loans | 11.4 | 11.4 | — |
| General working capital of Group | 3.5 | 3.5 | — |
| | 37.4 | 21.8 | 15.6 |

All the unutilised proceeds have been placed in licensed banks in the PRC and Hong Kong.

**Liquidity, Financial Resources and Capital Structure**

For the year ended 31 December 2017, the Group recorded net cash used in the operating activities of approximately RMB18.9 million as compared to the net cash used in the operating activities of approximately RMB3.8 million for the year ended 31 December 2016, primarily due to the decrease in trade payables and other payables during the year ended 31 December 2017 as compared to the increase in trade payables and other payables in the corresponding period in 2016.

As at 31 December 2017, the Group had net current assets of approximately RMB104.1 million (2016: approximately RMB 96.0 million). The Group's current ratio as at 31 December 2017 was approximately 6.4 (2016: approximately 2.5).

As at 31 December 2017, the Group had total cash and bank balances of approximately RMB15.8 million (2016: approximately RMB0.6 million). The increase in total cash and bank balances was mainly due to the proceeds received from shares issued upon the Company's listing.

As at 31 December 2017, the total available banking facilities of the Group were nil (2016: RMB14.7 million). The total borrowing drawn down from banking facilities as at 31 December 2017 was nil (2016: RMB14.7 million).

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 30 December 2016, since then there was no change in the capital structure of the Group. The capital of the Company comprises only ordinary shares. As at 31 December 2017, the equity attributable to owners of the Company amounted to approximately RMB125.6 million (2016: approximately RMB114.6 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%) increased by approximately 5.1% for the year ended 31 December 2016 to approximately 10.2% for the year ended 31 December 2017. Such increase was mainly attributable to the increase in net profit as a result of the (i) increase in other income and gains; (ii) decrease in income tax expense; and (iii) decrease in administrative and other expenses for the year ended 31 December 2017.

**Return on Assets**

Return on assets (i.e. net profit for the year divided by total assets of the year and multiplied by 100%) increased from approximately 3.3% for the year ended 31 December 2016 to approximately 8.9% for the year ended 31 December 2017. Such increase was mainly attributable to (i) the increase in net profit as a result of the (a) increase in other income and gains; (b) decrease in income tax expense; and (c) decrease in administrative and other expenses for the year ended 31 December 2017; and (ii) the decrease in other receivables for the year ended 31 December 2017.

**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 2.5 as at 31 December 2016 to approximately 6.4 as at 31 December 2017, primarily due to the decrease in (i) borrowings; and (ii) trade and other payables for the year ended 31 December 2017.

**Gearing Ratio**

As at 31 December 2017, the Group has 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%) of nil compared to that of 12.8% as at 31 December 2016. The decrease was mainly due to the full repayment of bank borrowings in 2017.

**Significant Investments**

As at 31 December 2017, there was no significant investment held by the Group (2016: 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 2017.

**Operating Lease Commitments**

The Group leased one property in the PRC from a related party as use for office and factory during the year ended 31 December 2017. As at 31 December 2017, the Group's operating lease commitments amounted to approximately RMB2.8 million (2016: approximately RMB3.2 million).

**Capital Commitments**

As at 31 December 2017, the Group did not have any capital commitments for the acquisition of property, plant and equipment (2016: approximately RMB0.8 million).

**Charges on the Group's assets**

As at 31 December 2017, the Group did not have any charges on assets (2016: Nil).

**Contingent Liabilities**

As at 31 December 2017, the Group did not have any significant contingent liabilities.

**Foreign Exchange Exposure**

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the year ended 31 December 2017, the Group did not hedge any exposure to foreign exchange risk.

**Employees and Remuneration Policies**

As at 31 December 2017, the Group employed 113 employees (2016: 111 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB7.6 million for the year ended 31 December 2017 (2016: approximately RMB6.3 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' overall remuneration is determined based on the Group's and their performance.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

**Model Code for Securities Transactions by Directors**

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Model Code") on terms no less exacting than the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Upon specific enquiries being made with all Directors, each of them confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2017.

**Corporate Governance and Compliance with the Corporate Governance Code**

The Company adopted the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for the provision A.2.1 of the CG Code, the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2017.

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should separate and should not be performed by the same individual. Mr. Zhao Yi Wen is both the chairman of the Board and the chief executive officer of the Company. In view of Mr. Zhao Yi Wen 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 Yi Wen taking up both roles for effective management and business development.

**Interests of the Compliance Adviser and its Directors, Employees and Associates**

As notified by the Company's compliance adviser, Lego Corporate Finance Limited (the "Compliance Adviser"), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2017 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## CLOSURE OF REGISTER OF MEMBERS

To ascertain the members' entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 11 May 2018, the register of members will be closed from Monday, 7 May 2018 to Friday, 11 May 2018, both days inclusive, during which period no transfer of shares can be registered. In order to be eligible to attend and vote at the meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Friday, 4 May 2018.

## AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company (the "Audit Committee") has discussed and reviewed with management and the Group's auditor, BDO Limited, the annual consolidated financial statements of the Group for the year ended 31 December 2017. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Chan Chung Kik, Lewis, Dr. Wu Wing Kuen, *B.B.S.* and Professor Chow Wai Shing, Tommy. Mr. Chan Chung Kik, Lewis, is the chairman of the Audit Committee who has appropriate professional qualifications and experience as required by the GEM Listing Rules.

**REVIEW OF THIS FINAL RESULTS ANNOUNCEMENT**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

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

Hong Kong, 22 March 2018

*As at the date of this announcement, the Executive Directors are Mr. Zhao Yi Wen, Mr. Lin Qi Jian and Mr. Chan Wing Kin; the Non-executive Director is Mr. Chiu Kwai San; and the Independent Non-executive Directors are Professor Chow Wai Shing, Tommy, Dr. Wu Wing Kuen, B.B.S. and Mr. Chan Chung Kik, Lewis.*

*This announcement will remain on the Stock Exchange's website at www.hkexnews.hk and on the "Latest Company Announcements" page for at least seven days from the date of its posting. This announcement will also be published on the Company's website at www.lighting-hg.com.*

* *For identification purpose only*