# 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 2018

## 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) | 2018 | 2017 | Percentage Change |
|---|---|---|---|
| Revenue | **203,747** | 116,737 | 74.5% |
| Cost of sales | **(155,899)** | (91,626) | 70.1% |
| Gross profit | **47,848** | 25,111 | 90.5% |
| Profit before income tax expense | **29,036** | 13,494 | 115.2% |
| Net profit | **23,896** | 12,833 | 86.2% |
| Earnings per share (RMB) | **0.0597** | 0.0321 | 86.0% |
| Total assets | **198,948** | 144,891 | 37.3% |
| Total equity | **150,210** | 125,625 | 19.6% |
| **Key Financial Ratios** | | | |
| Gross profit margin (%) | **23.5** | 21.5 | |
| Net profit margin (%) | **11.7** | 11.0 | |
| Return on equity (%) | **15.9** | 10.2 | |
| Return on assets (%) | **12.0** | 8.9 | |
| Current ratio | **3.7** | 6.4 | |
| Gearing ratio (%) | **N/A** | N/A | |

## 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 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

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

*For the year ended 31 December 2018*

| | *Notes* | **2018** <br> ***RMB'000*** | 2017 <br> *RMB'000* |
|---|---|---|---|
| **Revenue** | *5* | **203,747** | 116,737 |
| Cost of sales | | **(155,899)** | (91,626) |
| **Gross profit** | | **47,848** | 25,111 |
| Other income and gains | *5* | **183** | 2,288 |
| Selling and distribution expenses | | **(1,088)** | (1,301) |
| Administrative and other expenses | | **(19,210)** | (12,461) |
| Reversals of expected credit loss on trade and bills receivables | | **1,303** | — |
| Finance costs | *7* | **—** | (143) |
| **Profit before income tax expense** | *6* | **29,036** | 13,494 |
| Income tax expense | *8* | **(5,140)** | (661) |
| **Profit for the year attributable to owners of the Company** | | **23,896** | 12,833 |
| **Other comprehensive income** | | | |
| **Item that may be reclassified to profit or loss:** | | | |
| Exchange differences on translating foreign operations | | **689** | (1,777) |
| **Total comprehensive income for the year attributable to owners of the Company** | | **24,585** | 11,056 |
| **Earnings per share attributable to owners of the Company** | | | |
| — Basic and diluted (RMB cents) | *9* | **5.97** | 3.21 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2018*

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **16,349** | 17,739 |
| Intangible assets | | **2,262** | 2,944 |
| Prepayments and deposits | *12* | **931** | — |
| Deferred tax assets | | **466** | 797 |
| | | **20,008** | 21,480 |
| **Current assets** | | | |
| Inventories | | **16,664** | 16,058 |
| Trade and bills receivables | *11* | **94,351** | 87,111 |
| Prepayments, deposits and other receivables | *12* | **7,282** | 4,427 |
| Financial assets at fair value through profit or loss | | **6,905** | — |
| Pledged bank deposits | | **3,960** | — |
| Bank balances and cash | | **49,778** | 15,815 |
| | | **178,940** | 123,411 |
| **Current liabilities** | | | |
| Trade and bills payables | *13* | **40,260** | 10,956 |
| Other payables and accruals | | **6,547** | 7,664 |
| Current tax liabilities | | **1,931** | 646 |
| | | **48,738** | 19,266 |
| **Net current assets** | | **130,202** | 104,145 |
| **Net assets** | | **150,210** | 125,625 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *14* | **3,580** | 3,580 |
| Reserves | | **146,630** | 122,045 |
| **Total equity** | | **150,210** | 125,625 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2018*

## 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. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new/revised HKFRSs — effective 1 January 2018

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15) |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |

***HKFRS 9 — Financial Instruments***

(i) *Classification and measurement of financial instruments*

HKFRS 9 replaces Hong Kong Accounting Standard ("**HKAS**") 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

No material impact on the opening balance of reserves, retained earnings as of 1 January 2018 result from transition to HKFRS9.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss ("**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. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

— It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

— The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

— It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

— The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

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. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

| | |
|---|---|
| FVTPL | FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss. |
| Amortised cost | Financial assets at amortised cost are subsequently measured using the effective interest rate 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. |

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

| Financial assets | Original classification under HKAS 39 | New classification under HKFRS 9 | Carrying amount as at 1 January 2018 under HKAS 39 | Carrying amount as at 1 January 2018 under HKFRS 9 |
|---|---|---|---|---|
| | | | *RMB'000* | *RMB'000* |
| Trade and bills receivables | Loans and receivables | Amortised cost | 87,111 | 87,111 |
| Other receivables | Loans and receivables | Amortised cost | 51 | 51 |
| Bank balances and cash | Loans and receivables | Amortised cost | 15,815 | 15,815 |

(ii) *Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". HKFRS 9 requires the Group to recognise ECLs for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances 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.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. 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 receivables and contract assets 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-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. 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 and 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.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

Impact of the ECL model

(a) *Impairment of trade and bills receivables*

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade and bills receivables. To measure the ECLs, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. Applying the ECL model result in immaterial impairment on 1 January 2018.

The reversals of impairment loss for approximately RMB1,303,000 of trade and bills receivables during the year ended 31 December 2018.

(b) *Impairment of other receivables*

Applying the ECL model result in immaterial impairment on 1 January 2018 and for the year ended 31 December 2018. No impairment loss on other receivables during the year ended 31 December 2018.

(iii) *Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "**DIA**"):

— The determination of the business model within which a financial asset is held.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition. No material impact on the opening balance of reserves, retained earnings as of 1 January 2018 result from transition of HKFRS9.

***HKFRS 15 — Revenue from Contracts with Customers ("HKFRS 15") and amendments to HKFRS 15***

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The transition to HKFRS 15 had no impact on the opening balance of retained earnings and no impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and OCI for the year ended 31 December 2018. There was no impact on the Groups' consolidated statement of cash flow for the year ended 31 December 2018.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

*Sales of goods*

Customers obtain control of the LED beads and LED light 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 and LED lighting products. There is generally only one performance obligation. No element of financing is deemed present as invoices are usually payable from 30 to 90 days, extending up to 120 days for major customers, which is consistent with market practice. Therefore, the adoption of HKFRS 15 did not result in significant impact on the Group's accounting policies on recognition of sales income.

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

***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.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

## (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.

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKFRS 3, Business Combinations[1] |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKFRS 11, Joint Arrangements[1] |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKAS 12, Income Taxes[1] |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKAS 23, Borrowing Costs[1] |
| HKFRS 17 | Insurance Contracts[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between and Investor and its Associate or Joint Venture[3] |

1 Effective for annual periods beginning on or after 1 January 2019

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

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

***HKFRS 16 — Leases***

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Total operating lease commitments of the Group in respect of office premises as at 31 December 2018 amounted to approximately RMB2,436,000 (2017: RMB2,826,000). 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 result but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of the 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.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes the Group's accounting policies and financial statements.

***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 FVTOCI 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 Group do not have prepayable financial assets with negative compensation.

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

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

The Directors anticipate the application of Amendment to HKAS 28 have no impact as the Group do not have LTI in associates or joint ventures.

***Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 3, Business Combinations***

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

The Directors anticipate the application of Amendment to HKFRS 3 have no impact as the Group do not have joint operation.

***Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 11, Joint Arrangements***

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

The Directors anticipate the application of Amendment to HKFRS 11 have no impact as the Group do not have joint operation.

***Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 12, Income Taxes***

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

The Directors anticipate the application of Amendment to HKAS 12 have no impact as the Group do not have dividend income.

***Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 23, Borrowing Costs***

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

The Directors anticipate the application of Amendment to HKAS 23 have no impact as the Group do not have borrowing made specifically to obtain a qualifying asset.

***HKFRS 17 — Insurance Contracts***

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

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

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

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

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

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, 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 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.

### (c) Functional and presentation currency

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

## 4. 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.

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Client A | **43,685** | 43,687 |
| Client B | **31,550** | N/A |
| Client C | **29,197** | N/A |
| Client D | **24,565** | 19,399 |

## 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. The Group only has one performance obligation which is sale of the LED beads and LED lighting products.

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

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

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Revenue recognised at a particular point in time** | | |
| Sales of LED beads | **198,392** | 115,945 |
| Sales of LED lighting products | **5,355** | 792 |
| | **203,747** | 116,737 |
| **Other income and gains** | | |
| Bank interest income | **77** | 11 |
| Gain on disposal of property, plant and equipment | **—** | 54 |
| Government grants *(Note)* | **106** | 1,991 |
| Others | **—** | 232 |
| | **183** | 2,288 |

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

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

| | 31 December 2018 | 1 January 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Receivables | **94,351** | 87,111 |

## 6. PROFIT BEFORE INCOME TAX EXPENSE

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold | **155,899** | 91,626 |
| Depreciation of property, plant and equipment | **3,284** | 2,864 |
| Amortisation of intangible assets, included in cost of sales | **682** | 682 |
| Impairment loss on trade receivables *(note)* | **—** | 330 |
| Auditors' remuneration | **799** | 821 |
| Operating lease rental in respect of building | **388** | 390 |
| Research and development costs, included in administrative and other expenses | **10,025** | 1,220 |
| Employee costs (including Directors' remuneration) | | |
| — Wages, salaries and other benefits | **7,018** | 6,521 |
| — Contribution to defined contribution pension plans | **924** | 1,057 |
| Exchange (gain)/loss, net | **(88)** | 80 |

*Note:* Impairment loss determined in accordance with HKAS39.

## 7. FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on bank borrowings repayable within five years | **—** | 143 |

## 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 2018 and 2017.

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.

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current income tax — PRC EIT | | |
| — tax for the year | **5,033** | 3,460 |
| — Over provision in respect of prior years | **(224)** | (2,550) |
| Deferred tax | **331** | (249) |
| | **5,140** | 661 |

## 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 RMB23,896,000 (2017: RMB12,833,000), and the weighted average number of ordinary shares of 400,000,000 issued during the year ended 31 December 2018 (2017: 400,000,000). The Company did not have any potential dilutive shares for the years ended 31 December 2018 and 2017. 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 2018 and 2017.

## 11. TRADE AND BILLS RECEIVABLES

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **94,341** | 85,378 |
| Bills receivable | **10** | 1,733 |
| | **94,351** | 87,111 |

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days to 90 days, extending up to 120 days for major customers. The Group seeks to maintain control over its outstanding receivables and overdue balances are reviewed regularly by senior management. There is a certain concentration of credit risk.

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.

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 0 to 30 days | **34,187** | 21,328 |
| 31 to 60 days | **24,739** | 15,774 |
| 61 to 90 days | **16,361** | 11,984 |
| 91 to 120 days | **8,083** | 7,264 |
| 121 to 365 days | **11,448** | 30,114 |
| Over 1 year | **1,449** | 3,866 |
| | **96,267** | 90,330 |
| Less: Impairment of trade and bills receivables | **(1,916)** | (3,219) |
| | **94,351** | 87,111 |

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Other receivables | **51** | 51 |
| Prepayments and deposits *(note)* | **8,162** | 4,376 |
| | **8,213** | 4,427 |
| Less: non-current portion | | |
| Prepayments and deposits for acquisition of property, plant and equipment | **(931)** | — |
| Current portion | **7,282** | 4,427 |

Prepayments, deposits and other receivables do not contain impaired assets

*Note:* The amounts includes the prepayment to the independent third parties suppliers amounted to approximately RMB6,783,000 (2017: RMB3,584,000) for purchase of raw material.

## 13. TRADE AND BILLS PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **29,405** | 10,956 |
| Bills payables | **10,855** | — |
| | **40,260** | 10,956 |

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 to 30 days | **11,770** | 3,132 |
| 31 to 60 days | **3,740** | 2,381 |
| 61 to 90 days | **8,906** | 1,128 |
| 91 to 120 days | **5,873** | 1,297 |
| 121 to 365 days | **9,684** | 538 |
| Over 1 year | **287** | 2,480 |
| | **40,260** | 10,956 |

## 14. SHARE CAPITAL

| | **Number of ordinary shares** | ***RMB'000*** |
|---|---|---|
| **Issued and fully paid:** | | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 400,000,000 | 3,580 |

## MANAGEMENT DISCUSSION AND ANALYSIS

The Board hereby presents the annual results of the Group for the year ended 31 December 2018 (the "**Year**" or "**2018**"), together with the comparative figures for the corresponding year ended 31 December 2017 (the "**Previous Year**" or "**2017**").

### 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 PRC. Since the listing of the Company's securities on the GEM on 30 December 2016 (the "**Listing**"), there has been no significant change in the business operations of the Group. During the Year, the Group generally recognised revenue from the sales of LED beads and LED lighting products upon delivery of the products to the customers with their acceptance of the products.

### Business Review

The Group's revenue increased from approximately RMB116.7 million for the year ended 31 December 2017 to approximately RMB203.7 million for the year ended 31 December 2018. The growth in revenue was primarily attributable to the significant growth in the sales of LED beads in the second half of 2018.

Profit for the year ended 31 December 2018 amounted to approximately RMB23.9 million (approximately RMB12.8 million for the year ended 31 December 2017), which represents an increase of approximately RMB11.1 million or approximately 86.7% as compared to the Previous Year. Such increase is mainly due to the increase in revenue from the sales of LED beads.

The LED beads produced by the Group are used as core components of backlight LED products, which are in turn the light source for liquid crystal displays ("**LCDs**") as LCDs do not produce light themselves but rely on the backlight products for illumination. LCDs can be applied on consumer electronic products and other electronic devices, which include home appliances, medical electronic devices and commercial devices (e.g. surveillance systems and point-of-sales systems).

The popularity and applications of LED displays are rapidly increasing due to its flexibility in designs, as compared to other lighting solutions. Advantages of LED displays includes, (i) miniature in size, (ii) longer lifespan, (iii) more energy efficient, (iv) more environmental friendly; and (iv) wider colour spectrum.

According to a recent industry research report conducted by an independent industry consultant, the total market size of backlight LED products in the PRC has increased remarkably in recent years and the total market size of backlight LED products in the PRC is expected to increase at a compound annual growth rate at approximately 6.3% from 2018 to 2023.

On the other hand, the Group's Highly Stable Encapsulated Light-Emitting Diode* (高穩定性封裝發光二極管) and High Heat Dissipation & Uniform Light LED Lighting Product* (高散熱性勻光LED燈具) were both certified as Guangdong Province High-tech Product* (廣東省高新技術產品) by the Guangdong Hi-tech Enterprise Association* (廣東省高新技術企業協會) in December 2018. Moreover, during 2018, the Group successfully submitted applications for the registration of 10 patents in the PRC. As at 31 December 2018, the Group is the registered proprietor of 18 patents in the PRC. To further enhance the Group's research capacity, the Group has commissioned the School of Applied Physics and Materials Science of the Wuyi University (五邑大學), one of the top-tier universities in the Guangdong Province, to conduct specific research projects for the Group.

The Group's wholly owned subsidiary, Zhuhai HongGuang, being an enterprise of high and new technology, also continued to enjoy a preferential enterprise income tax rate of 15% in 2018.

With the PRC's enduring policy initiative to promote energy-saving business and domestic manufacturing and the above-mentioned favourable prospects of LED displays, the Group stays optimistic about the growth and business opportunities ahead.

**Financial Review**

***Revenue***

For the year ended 31 December 2018, total revenue was approximately RMB203.7 million, representing an increase of approximately 74.6% as compared with the Previous Year (2017: approximately RMB116.7 million). The increase was attributable to the increase 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:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| LED beads | **198,392** | **97.4** | 115,945 | 99.3 |
| LED lighting products | **5,355** | **2.6** | 792 | 0.7 |
| Total | **203,747** | **100.0** | 116,737 | 100.0 |

For the year ended 31 December 2018, revenue from LED beads amounted to approximately RMB198.4 million (2017: approximately RMB115.9 million), accounting for 97.4% of the total revenue (2017: 99.3%). The increase in revenue was mainly due to the increase in sales volume during the Year, as a result of the market trend and strong demand for thinner backlight LED products while the Group is able to produce slim and high standard LED beads to cater for the needs of its clients during the Year.

Revenue from LED lighting products during the Year amounted to approximately RMB5.4 million (2017: approximately RMB0.8 million), representing 2.6% of the total revenue (2017: 0.7%). The increase in revenue was primarily driven by the increase in sales volume ordered by two new customers during the Year.

### *Cost of Sales*

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It increased by approximately 70.2% from approximately RMB91.6 million for the year ended 31 December 2017 to approximately RMB155.9 million for the year ended 31 December 2018, reflecting an increase in the sales volume of the LED beads and LED lighting products, which mainly led to the increase in the cost of material used.

### *Gross Profit and Gross Profit Margin*

The gross profit increased from approximately RMB25.1 million for the year ended 31 December 2017 to approximately RMB47.8 million for the year ended 31 December 2018. The gross profit margin increased from approximately 21.5% for the year ended 31 December 2017 to approximately 23.5% for the year ended 31 December 2018. The following table sets forth a breakdown of the gross profit and gross profit margin by segment for the periods indicated:

| | **Year ended 31 December 2018** | | Year ended 31 December 2017 | |
|---|---|---|---|---|
| | **Gross profit** | **Gross profit margin** | Gross profit | Gross profit margin |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| LED beads | **45,412** | **22.9** | 24,684 | 21.3 |
| LED lighting products | **2,436** | **45.5** | 427 | 53.9 |
| Total gross profit/gross profit margin | **47,848** | **23.5** | 25,111 | 21.5 |

The gross profit margin of LED beads slightly increased from approximately 21.3% for the year ended 31 December 2017 to approximately 22.9% for the year ended 31 December 2018. Such increase was mainly attributable to the decrease in the average purchase price of the raw materials.

The gross profit margin of LED lighting products experienced a decline from approximately 53.9% for the year ended 31 December 2017 to approximately 45.5% for the year ended 31 December 2018. 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 decreased by approximately 91.3% from approximately RMB2.3 million for the year ended 31 December 2017 to approximately RMB0.2 million for the year ended 31 December 2018, which was mainly due to the decrease of government grants to the Group during the Year. For the year ended 31 December 2017, Zhuhai HongGuang received government grants of approximately RMB1.9 million, upon being recognised as a "New and High Technology Enterprise" (高新技術企業).

### *Selling and Distribution Expenses*

The selling and distribution expenses decreased by approximately 15.4% from approximately RMB1.3 million for the year ended 31 December 2017 to approximately RMB1.1 million for the year ended 31 December 2018. 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 and entertainment expenses, owing to the cost control initiative on sales and marketing by the Company.

### *Administrative and Other Expenses*

The Group's administrative and other expenses increased by approximately 53.6% from approximately RMB12.5 million for the year ended 31 December 2017 to approximately RMB19.2 million for the year ended 31 December 2018. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The increase in administrative and other expenses was mainly due to the increase in research and development costs during the Year as more emphasis was placed by the Group on research and development after being recognised as a "New and High Technology Enterprise". During the Year, the Group successfully submitted applications for the registration of 10 patents in the PRC. Research and development costs for the Year was approximately RMB10.0 million (2017: approximately RMB1.2 million).

### *Finance Costs*

The Group's finance costs decreased by 100% from approximately RMB0.1 million for the year ended 31 December 2017 to nil for the year ended 31 December 2018. Such decrease was mainly due to the full repayment of the Group's bank borrowings in 2017.

### *Income Tax Expense*

Income tax expense of the Group for the Year was approximately RMB5.1 million (2017: approximately RMB0.7 million). The increase in income tax expense was primarily attributable to (i) the Group's increase in revenue during the Year; and (ii) the absence of income tax credit during the Year. An income tax credit of approximately RMB2.6 million was recognised during 2017, in relation to the enterprise income tax reduction amount for the year 2016.

*Profit for the Year*

The profit for the year increased by approximately RMB11.1 million or approximately 86.7% from approximately RMB12.8 million for the year ended 31 December 2017 to approximately RMB23.9 million for the year ended 31 December 2018. The increase in profit for the Year was mainly attributable to the increase in revenue during the Year.

*Net Profit Margin*

The net profit margin was approximately 11.7% for the year ended 31 December 2018, compared to that of 11.0% for the year ended 31 December 2017. The increase was mainly due to the increase in gross profit margin.

**Dividend**

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: 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 2018:

| Business strategies up to 31 December 2018 as set out in the Prospectus | Actual business progress up to 31 December 2018 |
| --- | --- |
| — Expanding the production capacity | The Group has purchased 30 additional machineries for LED bead encapsulation. |
| — Developing the Group's sales channels | The Group has recruited five sales and marketing staff and in the process of exploring 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 the reliance on downstream LED lighting industry. During the Year, the Group has added a number of new customers to the client portfolio, of which three of these new customers were top ten customers for the Year and contributed over 20% to the Group's total revenue.

Another key risks and uncertainties facing the Group is technological risk. During the Year, the Group has put more emphasis on research and development and submitted applications for the registration of 10 patents in the PRC. Furthermore, the Group has commissioned one of the top-tier universities in the Guangdong Province to conduct specific research projects for the Group.

## Use of Proceeds

Based on the placing price of HK$0.63 per share, the net proceeds from the Listing, after deducting the underwriting commission and other estimated expenses, amounted to approximately HK$37.4 million. The Group intended to apply such net proceeds in accordance with the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 31 December 2018, 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 | 9.7 | 12.0 |
| Developing the Group's sales channels | 0.8 | 0.3 | 0.5 |
| Repayment of bank loans | 11.4 | 11.4 | — |
| General working capital of Group | 3.5 | 3.5 | — |
| | 37.4 | 24.9 | 12.5 |

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 2018, the Group recorded net cash generated from operating activities of approximately RMB46.8 million as compared to net cash used in operating activities of approximately RMB18.9 million for the year ended 31 December 2017, primarily due to the increase in trade and bills payables and other payables during the year ended 31 December 2018 as compared to the decrease in trade and bills payables and other payables in the corresponding period in 2017.

As at 31 December 2018, the Group had net current assets of approximately RMB130.2 million (2017: approximately RMB104.1 million). The Group's current ratio as at 31 December 2018 was approximately 3.7 (2017: approximately 6.4).

As at 31 December 2018, the Group had total bank balances and cash of approximately RMB49.8 million (2017: approximately RMB15.8 million). The increase in total bank balances and cash was mainly due to the net cash generated from operating activities at the amount of approximately RMB46.8 million.

As at 31 December 2017 and 31 December 2018, the total available banking facilities of the Group were nil.

The shares of the Company were successfully listed on the GEM 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 2018, the equity attributable to owners of the Company amounted to approximately RMB150.2 million (2017: approximately RMB125.6 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 from approximately 10.2% for the year ended 31 December 2017 to approximately 15.9% for the year ended 31 December 2018. Such increase was mainly attributable to the increase in net profit as a result of the increase in revenue.

**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 8.9% for the year ended 31 December 2017 to approximately 12.0% for the year ended 31 December 2018. Such increase was mainly attributable to the increase in net profit as a result of the increase in 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) decreased from approximately 6.4 as at 31 December 2017 to approximately 3.7 as at 31 December 2018, primarily due to the increase in trade and bills payables for the year ended 31 December 2018.

**Gearing Ratio**

As at 31 December 2018 and 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.

**Significant Investments**

As at 31 December 2018, there was no significant investment held by the Group (2017: Nil).

**Material Acquisitions and Disposals**

The Group did not carry out any material acquisition or disposal of any subsidiary during the year ended 31 December 2018.

**Operating Lease Commitments**

The Group leased one property in the PRC from a related party for use as office and factory during the year ended 31 December 2018. As at 31 December 2018, the Group's operating lease commitments amounted to approximately RMB2.4 million (2017: approximately RMB2.8 million).

**Capital Commitments**

As at 31 December 2018, the Group has capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to approximately RMB1.0 million (2017: nil).

**Charge on the Group's assets**

As at 31 December 2018, the Group pledged the following assets for the issuance of bank acceptance bills by the Group:

(i) time deposits of approximately RMB3.0 million (2017: nil);

(ii) bank deposit of RMB1.0 million (2017: nil); and

(iii) financial assets at fair value through profit or loss of approximately RMB6.9 million (2017: nil).

**Contingent Liabilities**

As at 31 December 2018, 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 2018, the Group did not hedge any exposure to foreign exchange risk.

**Employees and Remuneration Policies**

As at 31 December 2018, the Group employed 121 employees (2017: 114 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB7.9 million for the year ended 31 December 2018 (2017: approximately RMB7.6 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 2018, 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 2018.

**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 2018.

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 2018 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, 10 May 2019, the register of members will be closed from Monday, 6 May 2019 to Friday, 10 May 2019, 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, 3 May 2019.

## 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 2018. 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 2018 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, 20 March 2019

*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*