



# 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

ANNUAL REPORT

# 2018

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*This report, 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 report 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 report misleading.*

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# CORPORATE INFORMATION

## Directors

### Executive Directors

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

### Non-executive Director

Mr. CHIU Kwai San (趙桂生)

### Independent Non-executive Directors

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

## Audit Committee

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

## Nomination Committee

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

## Remuneration Committee

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

## Compliance Officer

Mr. CHAN Wing Kin (陳永健)

## Company Secretary

Mr. CHAN Wing Kin (陳永健)

## Authorised Representatives

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

## Registered Office

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

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

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

## CORPORATE INFORMATION (CONTINUED)

**Place of Business in Hong Kong**

Office D, 27/F.  
Billion Plaza 2  
10 Cheung Yue Street  
Kowloon  
Hong Kong

**Cayman Islands Principal Share Registrar and Transfer Office**

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

**Hong Kong Branch Registrar and Transfer Office**

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

**Principal Banker**

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

**Compliance Adviser**

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

**Legal Adviser**

TC & Co Solicitors  
Unit 2201-3  
Tai Tung Building  
8 Fleming Road  
Wanchai  
Hong Kong

**Auditor**

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

**Stock Code**

8343

**Company's Website**

[www.lighting-hg.com](http://www.lighting-hg.com)

## CHAIRMAN'S STATEMENT

### Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I am pleased to present the annual report of HongGuang Lighting Holdings Company Limited (the "**Company**") together with its subsidiaries (the "**Group**") for the year ended 31 December 2018 (the "**Year**" or "**2018**").

The Group hit a new milestone in 2018 by accomplishing an annual turnover of over RMB200 million for the first time. Owing to the relentless efforts of our sales team and the robust market demand, the Group achieved an increase in revenue of approximately 74.6% from approximately RMB116.7 million for the year ended 31 December 2017 to approximately RMB203.7 million for the year ended 31 December 2018. Profit for the Year increased tremendously by approximately RMB11.1 million or approximately 86.7% from approximately RMB12.8 million for the year ended 31 December 2017 (the "**Previous Year**" or "**2017**") to approximately RMB23.9 million for the year ended 31 December 2018.

The attempt to bring in new quality customers to our client portfolio was a success in 2018, of which three of these new customers were our top ten customers for the Year and contributed over 20% to the Group's total revenue.

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, the Group successfully submitted applications for the registration of 10 patents in the People's Republic of China (the "**PRC**") during 2018, as part of our commitment to invest in research and development. As at 31 December 2018, the Group is the registered proprietor of 18 patents in the PRC. During the Year, the Group has also 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.

In relation to elevating the Group's standard of quality and credibility of its brand, 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 accredited with the ISO 9001:2015 certification of quality management system and the ISO 14001:2015 certification of environmental management system since October 2017. Currently, Zhuhai HongGuang is preparing for the application for accreditation of the IATF 16949, which is one of the most widely used international standards for quality management in the automotive industry, with more intense and stringent requirements compared to ISO 9001.

Zhuhai HongGuang was also admitted as a council member of the Shenzhen Lighting and Display Project Industry Association (深圳市照明與顯示工程行業協會) in 2018, reflecting the Group's commitment in the industry's development.

Although the China economy has become more uncertain as a result of the trade war between the United States and China, the Chinese government has adopted strategies to boost domestic consumptions, diversify its export markets, and further prioritize the relationships through the Belt and Road Initiative. We are confident that the impact to our business will be minimal as the demand of our products focus primarily in the domestic market.

Upon the official opening of the Hong Kong-Zhuhai-Macau Bridge in October 2018, we expect the Group can benefit from the improved connectivity between the cities in the Greater Bay Area and broadened business opportunities, as the Group's principal business activities are based in Zhuhai.

Finally, on behalf of the Board, I wish to take this opportunity to express my sincere appreciation to the management and our employees for their dedication and hard work. I would also like to thank all the shareholders of the Company for their continuing support and patronage. We shall devote all our efforts for the best interests of the Company and the shareholders as a whole.

On behalf of the Board,  
**Mr. Zhao Yi Wen**  
Chairman  
Hong Kong, 20 March 2019

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 new and high 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 Highlights

Year ended 31 December (RMB'000)	2018	2017	Percentage Change
Revenue	<b>203,747</b>	116,737	74.5%
Cost of sales	<b>(155,899)</b>	(91,626)	70.1%
Gross profit	<b>47,848</b>	25,111	90.5%
Profit before income tax expense	<b>29,036</b>	13,494	115.2%
Net profit	<b>23,896</b>	12,833	86.2%
Earnings per share (RMB)	<b>0.0597</b>	0.0321	86.0%
Total assets	<b>198,948</b>	144,891	37.3%
Total equity	<b>150,210</b>	125,625	19.6%
<b>Key Financial Ratios</b>			
Gross profit margin (%)	<b>23.5</b>	21.5	
Net profit margin (%)	<b>11.7</b>	11.0	
Return on equity (%)	<b>15.9</b>	10.2	
Return on assets (%)	<b>12.0</b>	8.9	
Current ratio	<b>3.7</b>	6.4	
Gearing ratio (%)	<b>N/A</b>	N/A	



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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	<b>198,392</b>	<b>97.4</b>	115,945	99.3
LED lighting products	<b>5,355</b>	<b>2.6</b>	792	0.7
Total	<b>203,747</b>	<b>100.0</b>	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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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 RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
LED beads	45,412	22.9	24,684	21.3
LED lighting products	2,436	45.5	427	53.9
<b>Total gross profit/gross profit margin</b>	<b>47,848</b>	<b>23.5</b>	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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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 RMB131.1 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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.

\* For identification purpose only

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

### Executive Directors

**Mr. ZHAO Yi Wen (趙奕文)**, aged 49, is the chairman of the Board and the chief executive officer of the Company. He was appointed as Director on 27 May 2015 and was subsequently re-designated as an Executive Director on 13 May 2016. He is one of the founders of the Group and is primarily responsible for formulating overall corporate strategies and handling day to day management of the Group. Mr. Zhao is also a director of each of HongGuang Lighting Group Company Limited (“**HongGuang Lighting**”) and HongGuang Lighting (International) Limited (“**HongGuang International**”) and the chairman and legal representative of Zhuhai HongGuang Lighting Fixture Company Limited\* (“**Zhuhai HongGuang**”).

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

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

**Mr. LIN Qi Jian (林啟建)**, aged 40, was appointed as Executive Director on 13 May 2016. He is one of the founders of the Group and is primarily responsible for overseeing the overall business operation of the Group. Mr. Lin is also the supervisor and general sales manager of Zhuhai HongGuang.

Mr. Lin has over 17 years of experience in production of electronics components. From 1999 to 2016, Mr. Lin was a chairman of Zhuhai Special Economic Zone Lijia Electronics Development Company Limited\* (珠海經濟特區利佳電子發展有限公司), a limited liability company incorporated in the PRC which mainly manufactures and sells photosensitive resistors where Mr. Lin is responsible for formulating sales strategies, marketing and customer services. From 2004 to 2015, Mr. Lin was appointed as supervisor of Zhuhai Kedie Digital Technology Co., Ltd.\* (珠海市科碟數碼科技有限公司), a private company in the PRC, where he was responsible for monitoring the operation of the company. Mr. Lin attended secondary school education up to year 2 in the PRC.

**Mr. CHAN Wing Kin (陳永健)**, aged 38, was appointed as Director on 27 May 2015 and subsequently re-designated as an Executive Director on 13 May 2016. He is also the Company Secretary and the compliance officer of the Company and the director of HongGuang Lighting and HongGuang Lighting (Hong Kong) Holdings Limited (“**HongGuang Hong Kong**”). Mr. Chan is primarily responsible for the financial management of the Group.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chan obtained a bachelor degree of economics and finance with first class honours from The University of Hong Kong in December 2003 and a master's degree of economics from The University of Hong Kong in December 2004. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants since January 2012, a certified internal auditor of the Institute of Internal Auditors since March 2012, and a certified fraud examiner of the Association of Certified Fraud Examiners since March 2014.

Mr. Chan has over 14 years of experience in electronics industrial sector and accounting and internal controls sector. Prior to joining the Group, Mr. Chan was a purchasing supervisor in Jetcrown Industrial (Dongguan) Limited from September 2004 to April 2008 and was responsible for monitoring the daily purchasing operations and the staff recruitment of the company. From July 2008 to April 2010, Mr. Chan was an accountant in KPMG, where he had assisted in a number of audit assignments for a number of major corporate clients of KPMG. In April 2010, Mr. Chan joined Deloitte Touche Tohmatsu as an analyst of the Enterprise Risk Services Department. He was subsequently promoted to the position of manager before his resignation in February 2015. During his term of employment in Deloitte Touche Tohmatsu, Mr. Chan participated in internal controls, risk management and corporate governance advisory projects.

### Non-executive Director

**Mr. CHIU Kwai San (趙桂生)**, aged 56, was appointed as Non-executive Director on 13 May 2016. He is primarily responsible for monitoring the executive activities and providing strategic advice to the Group. Mr. Chiu is also a director of each of HongGuang Lighting and HongGuang Hong Kong and the vice chief director of Zhuhai HongGuang.

Mr. Chiu has over 17 years of experience in trading, sales and management. Since 2000, Mr. Chiu has been a director of Success Royal Limited, a private company incorporated in Hong Kong which mainly manufactures ink and glue, etc., where Mr. Chiu is responsible for managing the operation of the company. Mr. Chiu attended secondary school education up to year 3 in the PRC.

### Independent Non-executive Directors

**Professor CHOW Wai Shing, Tommy (周偉誠)**, aged 59, was appointed as Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Prof. Chow is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Prof. Chow obtained his bachelor degree of science in electrical and electronic engineering with first class honours from Sunderland Polytechnic (currently known as the University of Sunderland) in the United Kingdom in June 1984 and a doctoral degree of philosophy for his research in the electrical engineering field from the same university in April 1988. Prof. Chow is currently the professor of the Department of Electronic Engineering of the City University of Hong Kong.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

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

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

**Dr. WU Wing Kuen, B.B.S. (胡永權)**, aged 62, was appointed Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Dr. Wu is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Dr. Wu obtained a doctoral degree of business administration (Honoris Causa) from the Clayton University in the US in June 1989. Dr. Wu has over 25 years of experience in real estate investment. He has been the director of Jet View Investment Limited since December 1991 and the director of Jade Mind Investment Limited since October 2004. Both companies mainly invest in real estate.

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

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

**Mr. CHAN Chung Kik, Lewis (陳仲載)**, aged 46, was appointed as Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Mr. Chan is also the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Chan obtained a bachelor degree of commerce in accounting from the University of Canberra in Australia in September 1997. He is currently a fellow of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan has more than 21 years of experience in auditing, accounting and corporate finance. Currently, Mr. Chan is the chief financial officer and the joint company secretaries of Denox Environmental & Technology Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1452).

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

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

### Senior Management

**Ms. Qi Xiang Ling (綦香玲)**, aged 48, is the financial controller of Zhuhai HongGuang. Ms. Qi joined the Group in August 2010. She is mainly responsible for supervising financial reporting, corporate finance, treasury, tax and other financial related matters of the Group. Ms. Qi graduated from Guangdong Province Intermediate Vocational School\* (廣東省中等專業學校) majoring in financial accounting in July 1997. Ms. Qi obtained the elementary level qualification in accounting conferred by the Ministry of Finance of the PRC in May 2001.

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

**Mr. XU Jian Hui (許建輝)**, aged 62, is the director of Zhuhai HongGuang. Mr. Xu joined the Group as a general manager of Zhuhai HongGuang in March 2011 and was subsequently appointed as director of the same company in November 2014. Mr. Xu is primarily responsible for daily operation, administrative and productions management of Zhuhai HongGuang. Mr. Xu obtained a professional certificate in computer application from Shantou City Zhigong Yeyu University\* (汕頭市職工業餘大學) in July 1997 and obtained an assistant engineer practising certificate from the Engineering Technology Professional Title Committee of Shantou Electronic Industry Corporation\* (汕頭市電子工業總公司工程技術初級職務評審委員會) in December 1995.

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

\* For identification purpose only

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

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

The Company adopted the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for the provision A.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual (Please refer to the paragraph entitled "Chairman and Chief Executive" on page 21), the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2018.

## Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by the Directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the year ended 31 December 2018.

## Board of Directors

### Board Composition

As at 31 December 2018, the Board comprised of three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The composition of the Board is as follows:

#### Executive Directors

Mr. Zhao Yi Wen (*Chairman and Chief Executive Officer*)

Mr. Lin Qi Jian

Mr. Chan Wing Kin

#### Non-executive Director

Mr. Chiu Kwai San

#### Independent Non-executive Directors

Professor Chow Wai Shing, Tommy

Dr. Wu Wing Kuen, *B.B.S.*

Mr. Chan Chung Kik, Lewis

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Functions, Roles and Responsibilities of the Board

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

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

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

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

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Board/Board Committee Meetings

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

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Meetings Held and Attendance

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

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

### Corporate Governance Functions

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Chairman and Chief Executive

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

Code provision A.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the Independent Non-executive Directors without the presence of other Directors. During the year of 2018, one meeting between the chairman of Board and the Independent Non-executive Directors was held.

### Continuing Professional Development

Pursuant to the Code Provision A.6.5 under Appendix 15 of the GEM Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses.

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

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

A: attending seminars/conferences/forums

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Board Committees

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

### Audit Committee

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

The Audit Committee had four meetings during the year ended 31 December 2018 to discuss the matters set out above. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 20 for the individual attendance records of each member of the Audit Committee.

### Remuneration Committee

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

The Remuneration Committee had two meetings during the year ended 31 December 2018 to discuss the matters set out above. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 20 for the individual attendance records of each member of the Remuneration Committee.

### Nomination Committee

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



## CORPORATE GOVERNANCE REPORT (CONTINUED)

The Nomination Committee had one meeting during the year ended 31 December 2018 to recommend the re-appointment of Directors standing for re-election at the annual general meeting, to review the size, structure, composition as well as diversity of the Board and to assess the independence of Independent Non-executive Directors. Please refer to the paragraph entitled “Meetings Held and Attendance” on page 20 for the individual attendance records of each member of the Nomination Committee.

### Board Diversity Policy

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

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

1. At least one-third of the members of the Board shall be Independent Non-executive Directors; and
2. Enhance gender diversity (female representation) on the Board.

As at 31 December 2018, representation of Independent Non-executive Directors on the Board was 42%.

As at 31 December 2018, female representation on the Board was 0%. For the year ended 31 December 2018, no new Director was appointed.

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

The Nomination Committee will monitor the implementation of the board diversity policy and report to the Board annually.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Name of Directors	Age Group			
	Below 40	40 to 50	51-60	61 and above
Mr. Zhao Yi Wen ( <i>Chairman</i> )		✓		
Mr. Lin Qi Jian		✓		
Mr. Chan Wing Kin	✓			
Mr. Chiu Kwai San			✓	
Professor Chow Wai Shing, Tommy			✓	
Dr. Wu Wing Kuen				✓
Mr. Chan Chung Kik, Lewis		✓		

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

### Nomination Policy

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

- (a) Accomplishment, experience, reputation in the manufacturing industry and qualifications which include professional and academic qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- (b) The number of existing directorships and other commitments that may demand the attention of the candidate;
- (c) The ability to assist and support the management and make significant contributions to the Company's success;

## CORPORATE GOVERNANCE REPORT (CONTINUED)

- (d) Willingness to devote sufficient time to discharge his/her duties as a Board member and other directorships and commitment in respect of time, interest and attention to the Company's business;
- (e) Requirement for the Board to have Independent Non-executive Directors in accordance with the GEM Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in Rule 5.09 of the GEM Listing Rules;
- (f) Board Diversity Policy of the Company and any measurable objectives adopted by the Board for achieving diversity on the Board;
- (g) Any other relevant factors as may be determined by the Board from time to time.

### Director Nomination Procedure

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

- (1) The Nomination Committee and/or Board will identify potential candidates based on the criteria as set out in the selection criteria, possibly with assistance from external agencies and/or advisors;
- (2) The Nomination Committee and/or the Company Secretary of the Company will then provide the Board with the biographical details and details of the relationship between the candidate and the Company and/or Directors, directorships held, skills and experience, other positions which involve significant time commitment and any other particulars required by the Listing Rules, the Companies Law of the Cayman Islands and other regulatory requirements for any candidate for appointment to the Board;
- (3) The Nomination Committee would then make recommendation to the Board on the proposed candidate(s) and the terms and conditions of the appointment;
- (4) The Nomination Committee should ensure that the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;
- (5) In the case of the appointment of an Independent Non-executive Director, the Nomination Committee and/or the Board should obtain all information in relation to the proposed Director to allow the Board to adequately assess the independence of the Director in accordance with the factors set out in Rule 5.09 of the GEM Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time; and
- (6) The Board will then deliberate and decide on the appointment based upon the recommendation of the Nomination Committee.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Accountability and Audit

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

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

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

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

The responsibility of the Company's auditor, BDO Limited, is set out in the section headed "Independent Auditor's Report" on pages 52 to 117 of this annual report.

For the year ended 31 December 2018, the fees in respect of the audit services provided to the Group by BDO Limited, is set out as follows:

<b>Nature of services</b>	<b>For the year ended 31 December 2018 RMB'000</b>
Audit services	759

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### **Risk Management and Internal Control**

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

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

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

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

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

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

### Company Secretary

Mr. Chan Wing Kin, an Executive Director, is the Company Secretary of the Group. Please refer to his biographical details as set out on pages 13 to 14 of this annual report.

For the year ended 31 December 2018, Mr. Chan has undertaken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

### Compliance Officer

Mr. Chan Wing Kin, an Executive Director, is the Compliance Officer of the Group. Please refer to his biographical details as set out on pages 13 to 14 of this annual report.

### Sufficiency of Public Float

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

### Shareholders’ Rights

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Right to Convene EGMs and Procedures

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. Any one or more member(s) holding at the date of the deposit of the requisition not less than one tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong at Office D, 27/F., Billion Plaza 2, 10 Cheung Yue Street, Kowloon, Hong Kong for the attention of the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

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

### Right to Put Enquiries to the Board

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

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

### Right to Put forward Proposals at General Meetings

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

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

### Right to Propose a Person for Election as a Director

If a shareholder of the Company (the "**Shareholder**") wishes to propose a person other than a Director, for election as a new Director of the Company, the Shareholder must deposit a written notice (the "**Notice**") to the Company's principal place of business in Hong Kong at Office D, 27/F., Billion Plaza 2, 10 Cheung Yue Street, Kowloon, Hong Kong for the attention of the Company Secretary of the Company.

The Notice must state clearly the name, the contact information of the Shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 7.50(2) of the GEM Listing Rules, and be signed by the Shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent (the "**Letter**") signed by the person proposed to be elected on his/her willingness to be elected as a Director.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

### Investor Relations

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

### Dividend Policy

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

### Factors to Consider for a Dividend Proposal

Subject to the Memorandum and Articles of Association of the Company and all applicable laws and regulations, the Board shall consider the following factors before declaring or recommending dividends:

- (a) the Company's actual and expected financial performance;
- (b) retained earnings and distributable reserves of the Company and each of the members of the Group;
- (c) the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- (d) the Group's liquidity position;
- (e) prevailing economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group;
- (f) the restrictions on payment of dividends that may be imposed by the Group's lenders;
- (g) dividends received/receivable from the Company's subsidiaries; and
- (h) other factors that the Board may considered relevant.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

### **Types of Dividends and Dividend Payment Ratio**

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

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

The Company does not have any predetermined dividend payment ratio.

### **Constitutional Documents**

During the year ended 31 December 2018, there had been no significant change in the Company's constitutional documents. The memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company presents this ESG Report (the “**Report**”) for the year ended 31 December 2018 (“**Reporting Period**”), in accordance with Appendix 20 — Environmental, Social and Governance Reporting Guide published by the Hong Kong Exchanges and Clearing Limited and based on the material aspects of the Group and stakeholders.

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

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

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

### A. Environmental

#### Emissions

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

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

#### Air Emission

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

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

<b>Air Pollutant</b>	<b>Unit</b>	<b>Amount</b>
Benzene	Kilogram	0.80
Methylbenzene & Dimethylbenzene	Kilogram	4.29
VOCs	Kilogram	19.47

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

#### Hazardous and non-hazardous waste management

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

<b>Waste</b>	<b>Unit</b>	<b>Amount</b>
Waste organic solvent	Tonne	1.2

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

### Greenhouse Gas Emission

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

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

<b>Greenhouse Gas</b>	<b>Unit</b>	<b>Amount</b>
Carbon dioxide	Tonne	1,153

To reduce the greenhouse gas emission, we implemented energy saving measures to minimize the consumption of energy resources. Please refer to the “A2 Use of Resources” section below for detailed measures implemented.

### Use of Resources

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

Type of Energy	Unit	Amount
Electricity	Kilowatt hour ("kWh") ('000s)	2,126

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

Type of Packaging Material	Unit	Amount
Cartoon box	Tonne	6.48
Antistatic bag	Tonne	2.67

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

### The Environment and Natural Resources

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

### B. Social

#### Employment

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

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

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

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

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

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

#### Health and Safety

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

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

### Development and Training

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

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

### Labour Standards

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

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

### Supply Chain Management

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

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

### Product Responsibility

#### Products and Services Quality Assurance

Continuous customer satisfaction and support are essential for the organization's growth and profitability. The Company is committed to providing products and services that meets customer requirements consistently and that complies with regulations such as Product Quality Law of the PRC and Law of the PRC on the Protection of Consumer Rights and Interests. We deliver consistently high product quality by adopting internationally recognised standard on quality control practices, including the ISO 9001:2015 quality management system and ISO 14001:2015 environmental management system.

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

### Data Privacy

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

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

### Anti-corruption

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

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

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

### Community Investment

The Company cares about its community, and is willing to give our helping hands to the needy in order to promote the harmony and stability of the society. The management is aware of the needs of the society, and seeking for any opportunity to enhance the sustainability of the community, such as regular social welfare activities. We participated in local community events during the Reporting Period.



## DIRECTORS' REPORT

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2018.

### Principal Activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 30 to the consolidated financial statements.

### Business Review

Further discussion and analysis of these activities, including a business review of the Group for the Year, can be found in the Management Discussion and Analysis as set out on pages 5 to 12 of this annual report. These discussions form part of this Directors' report.

### Results

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 57.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

### Financial Summary

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 118. The summary does not form part of the audited consolidated financial statements.

### Reserves

Movements in the reserves of the Group and the Company during the year under review are set out in the consolidated statement of changes in equity on page 59 and note 26 to the consolidated financial statements, respectively.

### Property, Plant and Equipment

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

## DIRECTORS' REPORT (CONTINUED)

### Share Capital

Details of the movements during the Year in the share capital of the Company are set out in note 25 to the consolidated financial statements.

### 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.

### Distributable Reserves of the Company

Pursuant to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and retained profits of the Company are distributable to the shareholders. As at 31 December 2018, the Company's reserves available for distribution to the shareholders of the Company amounted to approximately RMB34.0 million.

### Major Customers and Suppliers

For the year ended 31 December 2018, the largest customer accounted for approximately 21.4% (2017: approximately 37.6%) of the total revenue. For the year ended 31 December 2018, the percentage of revenue derived from the five largest customers in aggregate was approximately 68.4% (2017: approximately 80.6%).

For the year ended 31 December 2018, the largest supplier accounted for approximately 39.2% (2017: approximately 62.9%) of the total purchases. For the year ended 31 December 2018, the five largest suppliers in aggregate accounted for approximately 85.9% (2017: approximately 89.3%) of the total purchases.

None of the Directors, their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had an interest in any of the Group's five largest customers and suppliers during the year ended 31 December 2018.

### Principal Risks and Uncertainties

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

## DIRECTORS' REPORT (CONTINUED)

### Reliance on Downstream LED Lighting Industry Risk

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

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

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

### Technological Risk

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

### Intense Competition Risk

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

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

## DIRECTORS' REPORT (CONTINUED)

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

### Environmental Policy

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

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

### Compliance with Relevant Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the GEM. Our establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2018 and up to the date of this report, the Company has complied with the relevant laws and regulations in the PRC and Hong Kong in all material respects.

### Key Relationships

#### Employees

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

#### Suppliers

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

## DIRECTORS' REPORT (CONTINUED)

### Customers

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

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

### Directors

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

#### Executive Directors

Mr. Zhao Yi Wen (*Chairman and Chief Executive Officer*)

Mr. Lin Qi Jian

Mr. Chan Wing Kin

#### Non-executive Director

Mr. Chiu Kwai San

#### Independent Non-executive Directors

Professor Chow Wai Shing, Tommy

Dr. Wu Wing Kuen, *B.B.S.*

Mr. Chan Chung Kik, Lewis

Pursuant to the Company's Articles of Association, Mr. Lin Qi Jian, Mr. Chan Wing Kin and Mr. Chiu Kwai San will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

### Directors' Service Contracts

Each of the Executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and continuing thereafter until terminated by either party by giving not less than three months' notice in writing to the other.

The Non-executive Director has entered into a letter of appointment with the Company for a term of two years commencing from 2 December 2016 and continuing thereafter until terminated by either party by giving not less than one month's notice in writing to the other.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of two years commencing from 2 December 2018, provided that either the Company or the Independent Non-executive Directors may terminate such appointment at any time by giving at least one month's notice in writing to the other.

## DIRECTORS' REPORT (CONTINUED)

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

### Directors' Interests in Contracts

Save for the related party transactions disclosed in note 31 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, or holding company was a party and in which a Director or an entity connected with a Director had a material interests, whether directly or indirectly, subsisted during or at the end of the Year.

### Independent Non-executive Directors

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 under the GEM Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

### Management Contracts

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

### Directors' Rights to Acquire Shares or Debentures

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

### Emolument Policy for Directors

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

## DIRECTORS' REPORT (CONTINUED)

### Non-competition Undertakings

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

### Competing Interests

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders of the Company nor any of their respective close associates (as defined under the GEM Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the period from the date of the Listing to 31 December 2018.

### Share Option Scheme

The Company's share option scheme (the **"Share Option Scheme"**) was conditionally approved by the Company pursuant to the written resolutions of the then all shareholders of the Company dated 2 December 2016. The terms of the Share Option Scheme are in accordance with Chapter 23 of the GEM Listing Rules. The following is a summary of the principal terms of the Share Option Scheme:

#### (1) Purpose of the Share Option Scheme

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

## DIRECTORS' REPORT (CONTINUED)

### (2) Who may join

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

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

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

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

### (4) Grant of options and acceptance of offers

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

### (5) Maximum number of Shares

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



## DIRECTORS' REPORT (CONTINUED)

### **(6) Maximum entitlement of each Eligible Person**

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

### **(7) Time of exercise of option**

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

### **(8) Period of the Share Option Scheme**

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

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

## DIRECTORS' REPORT (CONTINUED)

### Disclosure of Interests

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

#### Long positions in the ordinary shares of the Company

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

Notes:

- The letter "L" denotes a long position.
- The aggregate 300,000,000 Shares in which Mr. Zhao Yi Wen is interested consist of (i) 100,500,000 Shares held by First Global Limited, accompany wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Zhao Yi Wen is deemed to be interested as a result of being a party acting-in-concert with Mr. Lin Qi Jian and Mr. Chiu Kwai San.
- The aggregate 300,000,000 Shares in which Mr. Lin Qi Jian is interested consist of (i) 100,500,000 Shares held by Star Eagle Enterprises Limited, accompany wholly owned by Mr. Lin Qi Jian, in which Mr. Lin Qi Jian is deemed to be interested under the SFO; and (ii) 199,500,000 Shares in which Mr. Lin Qi Jian is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Chiu Kwai San.
- The aggregate 300,000,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, accompany wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; and (ii) 201,000,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.
- On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

## DIRECTORS' REPORT (CONTINUED)

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 31 December 2018, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

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

Notes:

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

## DIRECTORS' REPORT (CONTINUED)

4. The aggregate 300,000,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, accompany wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; and (ii) 201,000,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.
5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.
6. Ms. Zhuang Chan Ling is the spouse of Mr. Zhao Yi Wen and is deemed, or taken to be, interested in the Shares in which Mr. Zhao Yi Wen has interest under the SFO.
7. Ms. Xie Wan is the spouse of Mr. Lin Qi Jian and is deemed, or taken to be, interested in the Shares in which Mr. Lin Qi Jian has interest under the SFO.
8. Ms. Wong Ching Ming is the spouse of Mr. Chiu Kwai San and is deemed, or taken to be, interested in the Shares in which Mr. Chiu Kwai San has interest under the SFO.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

### Exempted Continuing Connected Transaction

During the year ended 31 December 2018, the Group entered into certain transactions with "related parties" as defined under the application accounting standards and the details of the material related party transactions (the "**Transactions**") are disclosed in note 31 to the consolidated financial statements of this annual report.

The Transactions falls under the definition of "connected transactions" or "continuing connected transactions" under Chapter 20 of the Listing Rules, but are fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 20 of the Listing Rules.

The Directors (including the Independent Non-executive Directors) confirmed that the continuing connected transaction under the PRC Lease Agreement as described above have been entered into in the ordinary and usual course of business of the Group and have been based on arm's length negotiations and on normal commercial terms that are fair and reasonable, the terms of the PRC Lease Agreement and its annual caps as mentioned above are fair and reasonable and in the interests of the Shareholders as a whole.

## DIRECTORS' REPORT (CONTINUED)

### 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.

### Corporate Governance

Details of the corporate governance practice adopted by the Company are set out on pages 17 to 31 of this annual report.

### Audit Committee

The audited financial statements of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2018 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

### Auditor

The consolidated financial statements for the year ended 31 December 2018 have been audited by BDO Limited, who will retire, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

By order of the Board

**HongGuang Lighting Holdings Company Limited**

**Zhao Yi Wen**

*Chairman and Executive Director*

Hong Kong, 20 March 2019

## INDEPENDENT AUDITOR'S REPORT



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### TO THE SHAREHOLDERS OF HONGGUANG LIGHTING HOLDINGS COMPANY LIMITED

*(incorporated in Cayman Islands with limited liability)*

### Opinion

We have audited the consolidated financial statements of HongGuang Lighting Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 57 to 117 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Impairment assessment of trade and bills receivables

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

As at 31 December 2018, the Group's gross trade and bills receivables balance amounted to approximately RMB94,351,000, of which approximately RMB1,782,000 were past due for more than 120 days. The collectability of the Group's trade and bills receivables and the valuation of the impairment of trade and bills receivables is a key audit matter due to the judgment involved.

### How our audit addressed the Key Audit Matter

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

- Assessing the methodologies and inputs adopted by the management of the Group in estimating the expected credit loss of trade receivables.
- Reviewing subsequent settlements of the trade and bills receivables; and
- Reviewing the repayment history and credit worthiness of the Group's debtors.

### Inventory provision

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

As at 31 December 2018, the inventories balance held by the Group amounted to approximately RMB16,664,000. The risk over the carrying values of inventories is considered a significant audit risk due to the technological obsolescence of light-emitting diode ("LED") beads over time and the judgement therefore made in assessing the recoverability of their carrying values.

### How Our Audit Addressed the Key Audit Matter

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

- Corroborating on a sample basis that items on the inventory aging listing were classified in the appropriate aging analysis;
- Reviewing the inventories movement of the LED beads by product type and identifying any slow moving items;
- Reviewing the subsequent usages and sales of the inventory items; and
- Checking on sample basis whether there were inventories that were sold with a negative margin after the year ended.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Other Information in the Annual Report

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

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

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

### Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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

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



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

**BDO Limited**

*Certified Public Accountants*

**Chan Wing Fai**

Practising Certificate Number: P05443

Hong Kong, 20 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	16,349	17,739
Intangible assets	16	2,262	2,944
Prepayments and deposits	19	931	—
Deferred tax assets	24	466	797
		<b>20,008</b>	21,480
<b>Current assets</b>			
Inventories	17	16,664	16,058
Trade and bills receivables	18	94,351	87,111
Prepayments, deposits and other receivables	19	7,282	4,427
Financial assets at fair value through profit or loss	20	6,905	—
Pledged bank deposits	21	3,960	—
Bank balances and cash	21	49,778	15,815
		<b>178,940</b>	123,411
<b>Current liabilities</b>			
Trade and bills payables	22	40,260	10,956
Other payables and accruals	23	6,547	7,664
Current tax liabilities		1,931	646
		<b>48,738</b>	19,266
<b>Net current assets</b>		<b>130,202</b>	104,145
<b>Net assets</b>		<b>150,210</b>	125,625
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	25	3,580	3,580
Reserves	26	146,630	122,045
<b>Total equity</b>		<b>150,210</b>	125,625

On behalf of the Directors

**Zhao Yi Wen**  
Director

**Lin Qi Jian**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RMB'000 (note 25)	Share premium RMB'000 (note 26 (a))	Statutory reserve RMB'000 (note 26(b))	Other reserve RMB'000 (note 26(c))	Capital reserve RMB'000 (note 26(d))	Exchange reserve RMB'000 (note 26(e))	Retained earnings RMB'000 (note 26(f))	Total RMB'000
At 1 January 2017	3,580	46,162	5,345	580	35,972	(3,730)	26,660	114,569
Profit for the year	—	—	—	—	—	—	12,833	12,833
Exchange differences on translating foreign operations	—	—	—	—	—	(1,777)	—	(1,777)
Total comprehensive income for the year	—	—	—	—	—	(1,777)	12,833	11,056
Transfer to statutory reserve	—	—	2,074	—	—	—	(2,074)	—
At 31 December 2017 and 1 January 2018	3,580	46,162	7,419	580	35,972	(5,507)	37,419	125,625
Profit for the year	—	—	—	—	—	—	23,896	23,896
Exchange differences on translating foreign operations	—	—	—	—	—	689	—	689
Total comprehensive income for the year	—	—	—	—	—	689	23,896	24,585
Transfer to statutory reserve	—	—	3,061	—	—	—	(3,061)	—
At 31 December 2018	3,580	46,162	10,480	580	35,972	(4,818)	58,254	150,210

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>29,036</b>	13,494
Adjustments for:			
Depreciation of property, plant and equipment	8	<b>3,284</b>	2,864
Amortisation of intangible assets	8	<b>682</b>	682
Gain on disposal of property, plant and equipment	7	—	(54)
Interest income	7	<b>(77)</b>	(11)
Finance costs	9	—	143
Reversals of expected credit loss on financial asset		<b>(1,303)</b>	—
Impairment loss on trade receivables	8	—	330
Operating profit before working capital changes		<b>31,622</b>	17,448
Increase in inventories		<b>(606)</b>	(4,932)
(Increase)/decrease in trade and bills receivables		<b>(5,937)</b>	1,778
Increase in prepayments and other receivables		<b>(3,786)</b>	(3,602)
Increase/(decrease) in trade and bills payables and other payables		<b>29,019</b>	(26,785)
Cash generated from/(used in) operations		<b>50,312</b>	(16,093)
Income tax paid		<b>(3,524)</b>	(2,785)
<i>Net cash generated from/(used in) operating activities</i>		<b>46,788</b>	(18,878)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		<b>(1,687)</b>	(6,492)
Purchase of financial assets at fair value through profit or loss		<b>(6,905)</b>	—
Interest received		<b>77</b>	11
Increase in pledged deposit		<b>(3,960)</b>	—
<i>Net cash flows used in investing activities</i>		<b>(12,475)</b>	(6,481)

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>Cash flows from financing activities</b>			
(Repayment to)/advance from a director		(832)	832
Proceed from issue of ordinary shares		—	56,385
Interest paid		—	(143)
Repayment of bank borrowings		—	(14,700)
<i>Net cash flows (used in)/generated from financing activities</i>		<b>(832)</b>	42,374
<b>Net increase in cash and cash equivalents</b>		<b>33,481</b>	17,015
Effect of exchange rate changes on cash and cash equivalents		482	(1,777)
<b>Cash and cash equivalents as at the beginning of the year</b>		<b>15,815</b>	577
<b>Cash and cash equivalents as at the end of the year</b>		<b>49,778</b>	15,815

# 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 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

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

##### HKFRS 9 — Financial Instruments (Continued)

###### (i) *Classification and measurement of financial instruments (Continued)*

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

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

##### HKFRS 9 — Financial Instruments (Continued)

##### (i) Classification and measurement of financial instruments (Continued)

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)****(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (Continued)****HKFRS 9 — Financial Instruments (Continued)***(i) Classification and measurement of financial instruments (Continued)*

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	Carrying
			amount as at 1 January 2018 under HKAS 39 RMB'000	amount as at 1 January 2018 under HKFRS 9 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

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

##### HKFRS 9 — Financial Instruments (Continued)

##### (ii) *Impairment of financial assets (Continued)*

###### **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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)****(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (Continued)**

## HKFRS 9 — Financial Instruments (Continued)

*(ii) Impairment of financial assets (Continued)***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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

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

##### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)****(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (Continued)****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 <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations <sup>1</sup>
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements <sup>1</sup>
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes <sup>1</sup>
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

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

##### HKFRS 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.

As disclosed in note 27, 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

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

##### Amendments to HKFRS 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

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

##### Annual Improvements to HKFRSs 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 3. Basis of Preparation

#### (a) Statement of compliance

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

#### (c) Functional and presentation currency

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

### 4. Significant Accounting Policies

#### (a) Subsidiaries

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

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

#### (b) Property, plant and equipment

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (b) Property, plant and equipment (Continued)

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

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

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

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

#### (c) Intangible assets

##### (i) Acquired intangible assets

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

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

##### (ii) Impairment

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (d) Financial instruments

##### A. Accounting policies applied from 1 January 2018

###### (i) Financial assets

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

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

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

###### Debt instruments

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

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (d) Financial instruments (Continued)

##### A. Accounting policies applied from 1 January 2018 (Continued)

###### (i) Financial assets (Continued)

###### **Debt instruments (Continued)**

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

###### **Equity instruments**

On initial recognition of an equity investment that is not held for trading and not contingent consideration recognised by an acquirer in a business combination, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVTOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss. The Group did not have any equity investment designated at FVTOCI as at 31 December 2018 and during the year ended 31 December 2018.

###### (ii) Impairment loss on financial assets

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (d) Financial instruments (Continued)

##### A. Accounting policies applied from 1 January 2018 (Continued)

###### (ii) *impairment loss on financial assets (Continued)*

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (d) Financial instruments (Continued)

##### A. Accounting policies applied from 1 January 2018 (Continued)

###### (iii) Financial liabilities

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

###### **Financial liabilities at fair value through profit or loss**

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (d) Financial instruments (Continued)

##### A. Accounting policies applied from 1 January 2018 (Continued)

###### (iii) *Financial liabilities*

###### **Financial liabilities at amortised cost**

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

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

###### (iv) *Effective interest method*

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

###### (v) *Equity instruments*

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

###### (vi) *Financial guarantee contracts*

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (d) Financial instruments (Continued)

##### A. Accounting policies applied from 1 January 2018 (Continued)

###### (vii) Derecognition

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

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

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

##### B. Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

###### (i) Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

###### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (d) Financial instruments (Continued)

##### B. Accounting policies applied until 31 December 2017 (Continued)

###### (ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

###### **For Loans and receivables**

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (d) Financial instruments (Continued)

##### B. Accounting policies applied until 31 December 2017 (Continued)

###### (iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred.

The Group's financial liabilities at amortised cost including trade and other payables, borrowings and other monetary liabilities, are initially recognised at fair value, net of directly attributable transaction cost incurred, and are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

###### (iv) *Effective interest method*

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

###### (v) *Equity instruments*

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

###### (vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (e) Inventories

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

#### (f) Capitalisation of borrowing costs

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

#### (g) Revenue recognition

##### A. Accounting policies applied from 1 January 2018

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (g) Revenue recognition (Continued)

##### A. Accounting policies applied from 1 January 2018 (Continued)

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

##### (a) Sales of goods

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

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

##### (b) Other income

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

##### B. Accounting policies applied until 31 December 2017

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer; and
- (b) interest income, on an accrual basis on the principal outstanding at the applicable interest rate.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (h) Leasing

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

##### The Group as lessee

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

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

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

- property, plant and equipment; and
- Intangible assets.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (j) Foreign currency

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

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (k) Government grants

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

#### (l) Cash and cash equivalents

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

#### (m) Income tax expense

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (n) Employee benefits

##### (i) Pension scheme

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

##### (ii) Short term employee benefits

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

##### (iii) Termination benefits

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

#### (o) Provisions and contingent liabilities

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4. Significant Accounting Policies (Continued)

#### (p) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
  - (vi) The entity is controlled or jointly controlled by a person identified in (a);
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 5. Key Sources of Estimation Uncertainty

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

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

#### (i) Net realisable value of inventories

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

#### (ii) Impairment of trade and other receivables

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

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

#### (iii) Recognition of sale under HKFRS15

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. To apply a 5-step approach to revenue recognition, the major area where the management of the Group has exercised significant judgement in applying HKFRS 15 was about the identification of number of performance obligations and whether the consideration for the performance obligations should be recognised as revenue over time or at a particular point in time. The Group's management concluded that each the sales contract contain only one performance obligation and all the sales revenue should be recognised at a particular point in time.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 6. Segment Information

The chief operating decision makers are identified as Executive Directors of the Company. The Group has identified its operating segment based on the regular internal financial information reported to the Company's Executive Directors for their decisions about resources allocation and review of performance. The Executive Directors have considered the only operating segment of the Group is design, development, 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 RMB'000	2017 RMB'000
Client A	<b>43,685</b>	43,687
Client B	<b>31,550</b>	N/A
Client C	<b>29,197</b>	N/A
Client D	<b>24,565</b>	19,399

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 7. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, less discounts, returns, value added tax and other applicable local taxes during the year. The 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 RMB'000	2017 RMB'000
<b>Revenue recognised at a particular point in time</b>		
Sales of LED beads	198,392	115,945
Sales of LED lighting products	5,355	792
	<b>203,747</b>	116,737
<b>Other income and gains</b>		
Bank interest income	77	11
Gain on disposal of property, plant and equipment	—	54
Government grants (Note)	106	1,991
Others	—	232
	<b>183</b>	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 RMB'000	1 January 2018 RMB'000
Receivables	94,351	87,111

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**8. Profit Before Income Tax Expense**

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

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

Note: Impairment loss determined in accordance with HKAS39.

**9. Finance Costs**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 10. Directors' Remuneration

Directors' emoluments are disclosed as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to defined contribution pension plans RMB'000	Total RMB'000
<b>Year ended 31 December 2018</b>				
<i>Executive Directors:</i>				
Mr. Zhao Yi Wen	304	88	8	400
Mr. Lin Qi Jian	203	88	7	298
Mr. Chan Wing Kin	—	608	15	623
<i>Non-executive Director:</i>				
Mr. Chiu Kwai San	101	—	—	101
<i>Independence Non-executive Directors:</i>				
Professor Chow Wai Shing, Tommy	101	—	—	101
Dr. Wu Ming Kuen, B.B.S.	101	—	—	101
Mr. Chan Chung Kik, Lewis	101	—	—	101
<b>Total</b>	<b>911</b>	<b>784</b>	<b>30</b>	<b>1,725</b>
<b>Year ended 31 December 2017</b>				
<i>Executive Directors:</i>				
Mr. Zhao Yi Wen	312	79	8	399
Mr. Lin Qi Jian	208	78	7	293
Mr. Chan Wing Kin	—	624	16	640
<i>Non-executive Director:</i>				
Mr. Chiu Kwai San	104	—	—	104
<i>Independence Non-executive Directors:</i>				
Professor Chow Wai Shing, Tommy	104	—	—	104
Dr. Wu Ming Kuen, B.B.S.	104	—	—	104
Mr. Chan Chung Kik, Lewis	104	—	—	104
<b>Total</b>	<b>936</b>	<b>781</b>	<b>31</b>	<b>1,748</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**11. Five Highest Paid Individuals**

The five highest paid individuals of the Group for the year included 3 (2017: 3) Directors whose emoluments are reflected in the disclosures in Note 10. The emoluments of the remaining 2 (2017: 2) highest paid individuals for the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	114	100
Performance related bonuses	45	43
Contribution to defined contribution pension plans	8	9
	<b>167</b>	152

Their remuneration fell within the following bands:

	2018 No. of individuals	2017 No. of individuals
Nil to HKD1,000,000	2	2

During the years ended 31 December 2018 and 2017, no Director or any of the highest-paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the Directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

**12. Income Tax Expense**

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

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

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2018 and 2017.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 12. Income Tax Expense (Continued)

In 2017, the Group's wholly-owned subsidiary, Zhuhai HongGuang Lighting Fixture Company Limited ("Zhuhai HongGuang") (珠海宏光照明器材有限公司) was awarded a "New and High Technology Enterprise Certificate" (高新技術企業證書). 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 RMB'000	2017 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 (Note 24)	331	(249)
	<b>5,140</b>	661

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

	2018 RMB'000	2017 RMB'000
Profit before income tax expense	29,036	13,494
At the PRC's statutory enterprise income tax rate of 15% (2017: 15%)	4,356	2,024
Effect of different tax rates of subsidiaries operating in other jurisdiction	(101)	(118)
Effect of non-deductible expenses	1,110	1,306
Effect of non-taxable income	(1)	(1)
Over provision in respect of prior years (note (i))	(224)	(2,550)
Income tax expense	<b>5,140</b>	661

Note:

- (i) The over-provision for approximately RMB2,550,000 recognised for the year ended 31 December 2017 representing the over-provision EIT for the year ended 31 December 2016 after the Company applied the concession.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**13. Earnings Per Share**

The basic earnings per share for the year is calculated based on the profit attributable to owners of the Company of 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.

**14. Dividend**

No dividend has been paid or declared by the Company for the years ended 31 December 2018 and 2017.

**15. Property, Plant and Equipment**

	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
<b>Cost</b>					
At 1 January 2017	27,379	148	73	200	27,800
Additions	6,492	—	—	—	6,492
Disposals	(300)	—	—	—	(300)
At 31 December 2017 and 1 January 2018	33,571	148	73	200	33,992
Additions	1,681	—	6	—	1,687
Exchange adjustment	228	—	—	—	228
At 31 December 2018	35,480	148	79	200	35,907
<b>Accumulated depreciation</b>					
At 1 January 2017	13,285	70	64	24	13,443
Depreciation charge for the year	2,817	27	2	18	2,864
Written back on disposal	(54)	—	—	—	(54)
At 31 December 2017 and 1 January 2018	16,048	97	66	42	16,253
Depreciation charge for the year	3,236	27	3	18	3,284
Exchange adjustment	21	—	—	—	21
At 31 December 2018	19,305	124	69	60	19,558
<b>Net book value</b>					
At 31 December 2018	16,175	24	10	140	16,349
At 31 December 2017	17,523	51	7	158	17,739

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 16. Intangible Assets

	Patent sublicense RMB'000	Computer Software RMB'000	Total RMB'000
<b>Cost</b>			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	3,600	465	4,065
<b>Accumulated amortisation</b>			
At 1 January 2017	424	15	439
Amortisation charge for the year	635	47	682
At 31 December 2017 and January 2018	1,059	62	1,121
Amortisation charge for the year	635	47	682
At 31 December 2018	1,694	109	1,803
<b>Net Book Value</b>			
At 31 December 2018	1,906	356	2,262
At 31 December 2017	2,541	403	2,944

### 17. Inventories

	2018 RMB'000	2017 RMB'000
Raw materials	4,532	6,736
Finished goods	12,132	9,322
	<b>16,664</b>	16,058

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**18. Trade and Bills Receivables**

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

	2018 RMB'000	2017 RMB'000
Trade receivables	94,341	85,378
Bills receivable	10	1,733
	<b>94,351</b>	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. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in note 34.

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 RMB'000	2017 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
	<b>96,267</b>	90,330
Less: Impairment of trade and bills receivables	<b>(1,916)</b>	(3,219)
	<b>94,351</b>	87,111

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 19. Prepayments, deposits and Other Receivables

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

### 20. Financial assets at fair value through profit or loss

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

The fair value of financial assets at fair value through profit or loss have been determined by reference to the default rate and recovery rate of the term deposits.

At 31 December 2018, the financial assets at fair value through profit loss pledged as security for bills payable amounted to RMB6,897,000 issued by the Group (note 22).

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**21. Pledged Bank Deposits/Bank Balances and Cash**

	2018 RMB'000	2017 RMB'000
Bank balances and cash	49,778	15,815
Pledged bank deposits (note)	3,960	—
	44,804	2,720
Denominated in RMB	44,804	2,720
Denominated in HK\$	8,929	13,095
Denominated in US\$	5	—

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

Note: Deposit pledge against bills payable represent time deposit of RMB2,960,000 and bank deposit of RMB1,000,000 pledged as security for the bills payable amounted to RMB3,958,000 issued by the Group (note 22).

**22. Trade and bills Payables**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 22. Trade and bills Payables (Continued)

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 RMB'000	2017 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
	<b>40,260</b>	10,956

### 23. Other Payables and Accruals

	2018 RMB'000	2017 RMB'000
Accrued payroll	569	466
Deposits received	2	7
Other payables and accruals (Note (i))	4,682	5,127
Amount due to a director (Note (ii))	—	832
Other tax payables	1,294	1,232
	<b>6,547</b>	7,664

Notes:

- (i) The amount included approximately RMB1,066,000 (2017: RMB925,000) rent and utility payables to 珠海經濟特區利佳電子發展有限公司, a related party of the Group which is beneficially owned by the shareholders of the Company, Mr. Lin Qi Jian and Mr. Zhao Yi Wen, who are also Director of the Company. Mr. Lin Qi Jian and Mr. Zhao Yi Wen together held approximately 93.3% (2017: approximately 93.3%) shares of the related party.
- (ii) Amount due to a director of the Company — Mr. CHIU Kwai San, who is also a shareholder of the Company, is unsecured, interest-free and repayable on demand. The amount is fully settled during the year ended 31 December 2018.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**24. Deferred Tax Assets**

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

	Deferred tax assets			Deferred tax liabilities	
	Impairment of trade receivables	Write off of inventories	Sub-Total	Accelerated tax depreciation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	612	4	616	(68)	548
Credited to profit or loss (Note 12)	193	—	193	56	249
At 31 December 2017 and 1 January 2018	805	4	809	(12)	797
Charged to profit or loss (Note 12)	(326)	—	(326)	(5)	(331)
At 31 December 2018	479	4	483	(17)	466

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

	2018 RMB'000	2017 RMB'000
Deferred tax assets	483	809
Deferred tax liabilities	(17)	(12)
	466	797

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

As at 31 December 2018 and 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiary established in the PRC. It is because in the opinion of the Directors, it is not probable that the subsidiary will distribute its earnings accrued from the date of operation to 31 December 2018 in the foreseeable future. Accordingly, no deferred tax liabilities have been recognised as at 31 December 2018 and 2017.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 25. Share Capital

	Number of ordinary shares	RMB'000
<b>Issued and fully paid:</b>		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	400,000,000	3,580

### 26. Reserves

Details of the movements on the Group's reserves for the years ended 31 December 2018 and 2017 is presented in the consolidated statement of changes in equity. Movements on the Company's reserves are as follows:

#### The Company

	Share premium RMB'000 (note (a))	Exchange reserve RMB'000 (note (e))	Accumulated losses RMB'000 (note (f))	Total RMB'000
At 1 January 2017	46,162	(53)	(821)	45,288
Loss for the year	—	—	(8,991)	(8,991)
Exchange differences on translating foreign operations	—	53	—	53
Total comprehensive income for the year	—	53	(8,991)	(8,938)
At 31 December 2017 and 1 January 2018	46,162	—	(9,812)	36,350
Loss for the year	—	—	(2,378)	(2,378)
Total comprehensive income for the year	—	—	(2,378)	(2,378)
At 31 December 2018	46,162	—	(12,190)	33,972

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 26. Reserves (Continued)

#### The Company (Continued)

(a) **Share Premium**

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

(b) **Statutory Reserve**

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

(c) **Other reserve**

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

(d) **Capital Reserve**

Capital reserve represents the capital contribution from shareholders.

(e) **Exchange Reserve**

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

(f) **Retained Earnings/Accumulated Losses**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 27. Operating Lease Commitment

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

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

	2018 RMB'000	2017 RMB'000
Not later than one year	390	390
Later than one year and not later than five years	1,559	1,559
Later than five years	487	877
	<b>2,436</b>	2,826

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

### 28. Capital Commitments

	2018 RMB'000	2017 RMB'000
Commitments for the acquisition of property, plant and equipment	1,034	—

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**29. Holding Company Statement of Financial Position**

	Notes	2018 RMB'000	2017 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in subsidiaries		7	7
		7	7
<b>Current assets</b>			
Amounts due from subsidiaries		29,389	28,583
Other receivables		88	624
Cash and cash equivalents		8,736	12,761
		38,213	41,968
<b>Current liabilities</b>			
Other payables		668	2,045
		668	2,045
<b>Net assets</b>		<b>37,552</b>	39,930
<b>EQUITY</b>			
Share capital	25	3,580	3,580
Reserves	26	33,972	36,350
<b>Total equity</b>		<b>37,552</b>	39,930

On behalf of the Directors

**Zhao Yi Wen**  
Director

**Lin Qi Jian**  
Director

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 30. Investment in Subsidiaries

Details of the subsidiaries as at 31 December 2018 are as follows:

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

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

### 31. Related Party Transactions

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

Name of related party	Nature of transactions	Transaction amount	
		2018 RMB'000	2017 RMB'000
珠海經濟特區利佳電子發展有限公司	Utility expense	1,984	1,420
珠海經濟特區利佳電子發展有限公司	Rental expense	388	390
		<b>2,372</b>	1,810

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**31. Related Party Transactions (Continued)****(b) Compensation of key management personnel**

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

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	1,291	1,301
Pension scheme contributions	30	31
	<b>1,321</b>	1,332

**32. Notes Supporting Cash Flow Statement****(a) Cash and cash equivalents comprise**

	2018 RMB'000	2017 RMB'000
Cash available on demand	49,778	15,815

**(b) Reconciliation of liabilities arising from financing activities**

	Amount due to a director RMB'000
At 1 January 2018	832
Change from cash flow:	
Repayment to a director	(832)
At 31 December 2018	—

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 33. Summary of Financial Assets and Financial Liabilities

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

	2018 RMB'000	2017 RMB'000
<b>Financial assets</b>		
Measured at amortised cost	148,140	—
Loans and receivables	—	102,977
Fair value through profit or loss	6,905	—
<b>Financial liabilities</b>		
Measured at amortised cost	46,807	18,620

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

#### (a) Financial instruments not measured at fair value

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

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

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

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

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

#### Information about level 3 fair value measurements

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

## Significant unobservable inputs

Default rate	0.05%
Recovery rate	30.36%

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

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

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

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

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

There were no transfers between levels during the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 34. Financial Risk Management

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

#### Interest rate risk

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

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

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

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

#### Foreign currency risk

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

#### Credit risk

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of 31 December 2018, the Group has a certain concentration of credit risk as approximately 59% (2017: 83%) of the total trade receivables were due from the five largest customers.

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

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

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

**Grade 1**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

## Grade 2

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

## Grade 3

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**34. Financial Risk Management (Continued)****Credit risk (Continued)****Summary (Continued)**

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(d)B(ii)). At 31 December 2017, trade receivables of RMB3,219,000 was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	<b>2017</b>
	RMB'000
Neither past due nor impaired	46,123
1–30 days past due	10,165
31–60 days past due	10,010
61–90 days past due	8,389
91–120 days past due	2,983
Past due for more than 120 days	12,660
	90,330

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 34. Financial Risk Management (Continued)

#### Credit risk (Continued)

##### Summary (Continued)

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

	2018 RMB'000	2017 RMB'000
Balance at 1 January under HKFRS 9/HKAS 39	3,219	2,889
Impairment loss recognised	—	516
Reversal of provision during the year	(1,303)	(186)
Balance at 31 December	1,916	3,219

The following significant changes in the gross carrying amounts of trade and bills receivables contributed to the increase in the loss allowance during 2018:

- Decrease in long overdue trade receivable resulted in an decrease in loss allowance at RMB1,303,000.

#### Liquidity risk

The Group objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The maturity profile of the Group's financial liabilities as at each of the years ended 31 December 2018 and 2017, based on the contractual undiscounted payments, is less than one year. The discounting impact of the Group's financial liabilities is insignificant.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**35. Capital Management**

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

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

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Trade payables	<b>40,260</b>	10,956
Other payables and accruals	<b>6,547</b>	7,664
Less: Bank balances and cash	<b>(49,778)</b>	(15,815)
Net debt	<b>(2,971)</b>	2,805
Equity	<b>150,210</b>	125,625
Net debt-to-equity ratio	<b>Nil</b>	2%

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

**36. Approval of Financial Statements**

The financial statements were approved and authorised for issue by the Board of Directors on 20 March 2019.

## FINANCIAL SUMMARY

### Results

	<b>2018</b>	2017	2016	2015	2014
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<b>203,747</b>	116,737	141,990	118,706	110,038
Profit before income tax expense	<b>29,036</b>	13,494	13,007	12,317	7,859
Income tax expense	<b>(5,140)</b>	(661)	(7,121)	(4,581)	(2,456)
Profit for the year	<b>23,896</b>	12,833	5,886	7,736	5,403

### Assets and Liabilities

	<b>2018</b>	2017	2016	2015	2014
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	<b>198,948</b>	144,891	176,663	110,905	129,354
Total liabilities	<b>48,738</b>	19,266	62,094	57,733	87,075
Total equity	<b>150,210</b>	125,625	114,569	53,172	42,279

Note:

The financial information for the years ended 31 December 2014 and 2015 were extracted from the prospectus of the Company dated 16 December 2016. The summary above does not form part of the audited financial statements.