



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

Interim Report **2017**

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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
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Cayman Islands

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

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Nanping Technology Industrial Park
Zhuhai
PRC

Place of Business in Hong Kong

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Ground Floor
Blocks 7-14
City Garden
No. 233 Electric Road
Hong Kong

Corporate Information (Continued)

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Registrar and Transfer Office

Boardroom Share Registrars (HK) Limited
31st Floor, 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
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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

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

For the six months ended 30 June 2017

The board of directors (the “Board”) of the Company announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2017 (the “Period”), together with the comparative unaudited figures for the corresponding period in 2016 (the “Previous Period”), as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue	2	26,276	29,125	52,786	60,241
Cost of sales		(20,874)	(23,439)	(41,403)	(46,815)
Gross profit		5,402	5,686	11,383	13,426
Other income and other gains	2	117	688	1,984	762
Selling and distribution expenses		(437)	(228)	(620)	(459)
Administrative expenses		(2,285)	(5,230)	(5,503)	(7,999)
Finance costs		(12)	(188)	(143)	(305)
Profit before income tax expense		2,785	728	7,101	5,425
Income tax credit/(expense)	3	2,233	(1,283)	1,292	(2,828)
Profit/(loss) for the period attributable to owners of the Company		5,018	(555)	8,393	2,597
Other comprehensive income					
Item that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations		(1,237)	44	(1,040)	259
Total comprehensive income for the period attributable to owners of the Company		3,781	(511)	7,353	2,856
Earnings/(loss) per share attributable to owners of the Company					
— Basic and diluted (RMB cents)		1.25	(0.19)	2.10	0.87

Condensed Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		15,244	14,357
Intangible assets		3,286	3,626
Deferred tax assets		548	548
		19,078	18,531
Current assets			
Inventories		13,449	11,126
Trade and bills receivables	6	76,120	89,219
Prepayments and other receivables	7	3,533	57,210
Cash and cash equivalents		24,375	577
		117,477	158,132
Current liabilities			
Trade payables	8	8,930	25,715
Other payables and accruals		5,703	19,158
Borrowings	9	—	14,700
Current tax liabilities		—	2,521
		14,633	62,094
Net current assets		102,844	96,038
Net assets		121,922	114,569
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,580	3,580
Reserves		118,342	110,989
Total equity		121,922	114,569

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Share capital	Share premium	Statutory reserve	Other reserve	Capital reserve	Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (audited)	3,580	46,162	5,345	580	35,972	(3,730)	26,660	114,569
Profit for the period	—	—	—	—	—	—	8,393	8,393
Exchange differences on translating foreign operations	—	—	—	—	—	(1,040)	—	(1,040)
Total comprehensive income for the period	—	—	—	—	—	(1,040)	8,393	7,353
Transfer to statutory reserve	—	—	1,209	—	—	—	(1,209)	—
At 30 June 2017 (unaudited)	3,580	46,162	6,554	580	35,972	(4,770)	33,844	121,922
At 1 January 2016 (audited)	—	—	3,448	580	27,833	(1,360)	22,671	53,172
Profit for the period	—	—	—	—	—	—	2,597	2,597
Exchange differences on translating foreign operations	—	—	—	—	—	259	—	259
Total comprehensive income for the period	—	—	—	—	—	259	2,597	2,856
Transfer to statutory reserve	—	—	804	—	—	—	(804)	—
Shareholder contribution (note)	—	—	—	—	2,546	—	—	2,546
At 30 June 2016 (unaudited)	—	—	4,252	580	30,379	(1,101)	24,464	58,574

Note: For the six months ended 30 June 2016, the Group obtained shareholder's loan of RMB2,546,000 from Mr. Chiu Kwai San. Such amount has been effectively waived by Mr. Chiu Kwai San before the period ended 30 June 2016 and recognised as shareholder contribution in the capital reserve of the Group.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Cash flows from operating activities		
Profit before income tax expense	7,101	5,425
Adjustments for:		
Depreciation of property, plant and equipment	1,328	1,232
Amortisation of intangible assets	341	73
Interest income	(9)	—
Finance costs	143	305
Exchange gains and losses, net	81	—
Operating profit before working capital changes	8,985	7,035
(Increase)/decrease in inventories	(2,322)	9,442
Decrease/(increase) in trade and bills receivables	13,099	(430)
Decrease/(increase) in prepayments and other receivables	8,258	(13,428)
Decrease in trade and other payables	(30,243)	(8,432)
Cash used in operations	(2,223)	(5,813)
Income tax paid	(1,229)	(2,879)
Net cash flows used in operating activities	(3,452)	(8,692)
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,215)	(299)
Purchase of intangible assets	—	(2,882)
Interest received	9	—
Net cash flows used in investing activities	(2,206)	(3,181)

Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Cash flows from financing activities		
Advance from shareholders	—	2,546
Repayment to a director	—	(627)
Interest paid	(143)	(305)
Repayment of bank borrowings	(14,700)	—
Proceeds from bank borrowings	—	6,700
Gross proceeds from placing	54,684	—
Payment of listing expenses in relation to the placing	(10,381)	—
Net cash flows generated from financing activities	29,460	8,314
Net increase/(decrease) in cash and cash equivalents	23,802	(3,559)
Effect of exchange rate changes on cash and cash equivalents	(4)	(6)
Cash and cash equivalents at the beginning of period	577	7,670
Cash and cash equivalents at the end of period	24,375	4,105

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

1. General Information, Basis of Preparation and Accounting Policies

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 Growth Enterprise Market (“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 KY11108, 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.

The unaudited consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and comply with the applicable disclosure provisions of the GEM Listing Rules.

The accounting policies adopted for the preparation of the unaudited consolidated interim financial statements are consistent with those set out in the Group’s consolidated annual financial statements for the year ended 31 December 2016, except for adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are effective to the Group for accounting periods beginning on or after 1 January 2017. The adoption of the new and revised HKFRSs has no material impact on the Group’s results and financial position for the current or prior periods.

The unaudited consolidated interim financial statements have been reviewed by the audit committee of the Company.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

2. 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 reporting period.

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

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue		
Sales of LED beads	51,994	58,110
Sales of LED lighting products	792	2,131
	52,786	60,241
Other income and gains		
Bank interest income	9	—
Government grants	1,891	74
Others	84	688
	1,984	762

3. 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 operated.

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.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

3. Income Tax Expense (Continued)

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 six months ended 30 June 2017 and 2016.

Provision for the enterprise income tax (the "EIT") in the PRC is calculated based on a statutory tax rate of 25% on the estimated assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the relevant income tax law in the PRC.

In 2017, the Group's wholly-owned subsidiary, Zhuhai HongGuang Lighting Fixture Company Limited* ("Zhuhai HongGuang") (珠海宏光照明器材有限公司) was awarded a 'New and High Technology Enterprise Certificate' (高新技術企業證書). As a result, Zhuhai HongGuang is entitled to a tax preference with a reduction of the EIT rate from 25% to 15% for the period upon being recognised as an enterprise of new and high technology.

4. Dividend

No dividend has been paid or declared by the Company since the date of its incorporation, or by any of the companies now comprising the Group during the reporting period.

5. Earnings per Share

The basic earnings per share for the period is calculated based on the profit attributable to owners of the Company of RMB8,393,000 (2016: RMB2,597,000), and the weighted average number of ordinary shares of 400,000,000 issued during the six months ended 30 June 2017 (2016: 300,000,000 deemed to have been issued throughout the six months ended 30 June 2016).

The Company did not have any potential dilutive shares for the six months ended 30 June 2017 and 2016. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

6. Trade and Bills Receivables

	As at 30 June 2017 RMB'000 (unaudited)	As at 31 December 2016 RMB'000 (audited)
Trade receivables	73,664	84,302
Bills receivable	2,456	4,917
	76,120	89,219

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

	As at 30 June 2017 RMB'000 (unaudited)	As at 31 December 2016 RMB'000 (audited)
0 to 30 days	11,700	22,865
31 to 60 days	6,807	23,927
61 to 90 days	9,028	14,425
91 to 120 days	12,726	8,619
121 to 365 days	35,773	19,398
Over 1 year	2,892	2,874
	78,926	92,108
Less: Impairment of trade receivables	(2,806)	(2,889)
	76,120	89,219

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

6. Trade and Bills Receivables (Continued)

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

	As at 30 June 2017 RMB'000 (unaudited)	As at 31 December 2016 RMB'000 (audited)
Past due for less than 30 days	10,586	7,091
Past due for more than 30 days but less than 60 days	9,839	13,219
Past due for more than 60 days but less than 90 days	6,932	6,348
Past due for more than 90 days but less than 120 days	5,113	2,772
Past due for more than 120 days	17,704	2,734
	50,174	32,164

7. Prepayments and other Receivables

	As at 30 June 2017 RMB'000 (unaudited)	As at 31 December 2016 RMB'000 (audited)
Other receivables (<i>note</i>)	278	56,439
Prepayments	3,255	771
	3,533	57,210

Note: The amount includes receivable of proceeds from share placing. The balance has been fully received in January 2017.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

8. Trade Payables

	As at 30 June 2017 RMB'000 (unaudited)	As at 31 December 2016 RMB'000 (audited)
Trade payables	8,930	25,715

The aging analysis of the trade payables, based on the invoice date, is as follows:

	As at 30 June 2017 RMB'000 (unaudited)	As at 31 December 2016 RMB'000 (audited)
0 to 30 days	3,670	12,989
31 to 60 days	683	4,782
61 to 90 days	177	1,303
91 to 120 days	46	218
121 to 365 days	16	681
Over 1 year	4,338	5,742
	8,930	25,715

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

9. Borrowings

	As at 30 June 2017 RMB'000 (unaudited)	As at 31 December 2016 RMB'000 (audited)
Secured interest-bearing bank borrowings — Repayable on demand or within one year	—	14,700

During the period, the Group has fully repaid its bank borrowings.

10. Related Party Transactions

During the six months ended 30 June 2017, the Group entered into certain transactions with “related parties” as defined under the applicable accounting standards and the details of the material related party transactions (the “Transactions”) are disclosed as follows:

Name of related party	Nature of transactions	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
珠海經濟區利佳電子發展有限公司	Utility expense	862	811
珠海經濟區利佳電子發展有限公司	Rental expense	167	167
		1,029	978

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.

Management Discussion and Analysis

Business Activities

The Group is principally engaged in the design, development, manufacturing and sales of LED beads and LED lighting products in the PRC. Since the listing of the Company's securities on the GEM of the Stock Exchange on 30 December 2016 (the "**Listing**"), there has been no significant change in the business operations of the Group. During the Period, the Group generally recognised revenue from the sales of LED beads and LED lighting products upon delivery of our products to our customers with their acceptance of our products.

Business Review

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

Zhuhai HongGuang has successfully registered one new utility patent in the PRC during the first half of 2017. As at 30 June 2017, the Group is the registered proprietor of 16 patents in the PRC.

During the Period, a number of our downstream customers experienced sales downturn and reduced their purchases from our Group. As a result, the Group's revenue decreased from approximately RMB60.2 million for the six months ended 30 June 2016 to approximately RMB52.8 million for the six months ended 30 June 2017.

Profit for the Period amounted to approximately RMB8.4 million (approximately RMB2.6 million for the six month ended 30 June 2016), which represents an increase of approximately RMB5.8 million or approximately 223.1% as compared to the corresponding period in 2016. Such increase is mainly due to (i) the recognition as other income and gains of non-recurrent government grants of approximately RMB1.9 million granted to Zhuhai HongGuang. Consequently, the amount of other income and gains for the Period increased from approximately RMB0.8 million in the Previous Period to approximately RMB2.0 million; (ii) Zhuhai HongGuang is entitled to a reduction in the rate of enterprise income tax from 25% to 15%; and (iii) the recognition of a non-recurring income tax credit of approximately RMB2.6 million which results in a reduction of enterprise income tax payable.

Management Discussion and Analysis (Continued)

The Group continues to explore and develop growth opportunities. In particular, we are working closely with a designated manufacturer of a renowned Japanese brand in Wuxi on refining the technical details of our LED beads.

Financial Review

Revenue

For the six months ended 30 June 2017, total revenue was approximately RMB52.8 million, representing a decrease of approximately 12.3% as compared with the Previous Period (2016: RMB60.2 million). The decline was mainly attributable to the decrease in revenue from the sales of both LED beads and LED lighting products.

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

	Six months ended 30 June			
	2017		2016	
	RMB'000	%	RMB'000	%
LED beads	51,994	98.5	58,110	96.5
LED lighting products	792	1.5	2,131	3.5
Total	52,786	100.0	60,241	100.0

For the six months ended 30 June 2017, revenue from LED beads amounted to approximately RMB52.0 million (2016: approximately RMB58.1 million), accounting for 98.5% of our total revenue (2016: 96.5%). The decrease in revenue was mainly due to a decrease in sales volume during the Period.

Revenue from LED lighting products during the Period amounted to approximately RMB0.8 million (2016: approximately RMB2.1 million), representing 1.5% of our total revenue (2016: 3.5%).

Management Discussion and Analysis (Continued)

Cost of Sales

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It decreased by approximately 11.5% from approximately RMB46.8 million for the six months ended 30 June 2016 to approximately RMB41.4 million for the six months ended 30 June 2017, reflecting a decrease in the sales volume of our LED beads and LED lighting products, which mainly led to the decrease in the cost of material used.

Gross Profit and Gross Profit Margin

The gross profit decreased from RMB13.4 million for the six months ended 30 June 2016 to RMB11.4 million for the six months ended 30 June 2017. The gross profit margin remained relatively stable at 21.6% for the six months ended 30 June 2017, compared to 22.3% for the six months ended 30 June 2016. The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the periods indicated:

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
LED beads	10,954	21.1	12,036	20.7
LED lighting products	429	54.2	1,390	65.2
Total gross profit/gross profit margin	11,383	21.6	13,426	22.3

The gross profit margin of LED beads remained relatively stable during the six months ended 30 June 2016 and 30 June 2017. The gross profit margin of LED lighting products experienced a decline from 65.2% for the six months ended 30 June 2016, to 54.2% for the six months ended 30 June 2017. Such decrease was mainly due to the increase in sales of lower profit margin LED lighting product type during the Period, as compared to the Previous Period.

Management Discussion and Analysis (Continued)

Other Income and Gains

Other income and gains of the Group increased by 150.0% from RMB0.8 million for the six months ended 30 June 2016 to RMB2.0 million for the six months ended 30 June 2017, which was mainly attributable to the receipt of non-recurring government grants of approximately RMB1.9 million, by the Group's wholly-owned subsidiary, Zhuhai HongGuang, which was being recognised as a "New and High Technology Enterprise" (高新技術企業).

Selling and Distribution Expenses

The selling and distribution expenses increased by 20.0% from RMB0.5 million for the six months ended 30 June 2016 to RMB0.6 million for the six months ended 30 June 2017. The increase in selling and distribution expenses was mainly attributable to the increase in staff costs, traveling expenses and entertainment expenses.

Administrative and Other Expenses

The Group's administrative and other expenses decreased by 31.3% from RMB8.0 million for the six months ended 30 June 2016 to RMB5.5 million for the six months ended 30 June 2017. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The decrease in administrative and other expenses was mainly due to the absence of listing expenses for the six months ended 30 June 2017. The Group recorded listing expenses of approximately RMB4.4 million for the six months ended 30 June 2016.

Finance Costs

The Group's finance costs decreased by 66.7% from RMB0.3 million for the six months ended 30 June 2016 to RMB0.1 million for the six months ended 30 June 2017. Such decrease was mainly a result of the full repayment of the Group's bank borrowings during the Period.

Income Tax Credit/Expense

Income tax credit of the Group for the Period was approximately RMB1.3 million (2016: Income tax expense of approximately RMB2.8 million). The decrease in income tax expense was primarily attributable to (i) the Group's wholly-owned subsidiary, Zhuhai HongGuang's entitlement to a tax preference with a reduction of enterprise income tax rate from 25% to 15% upon being recognised as an enterprise of new and high technology during the Period; and (ii) a non-recurring income tax credit of approximately RMB2.6 million recognised during the Period, in relation to the enterprise income tax reduction amount for the year 2016.

Management Discussion and Analysis (Continued)

Profit for the Period

The profit for the Period increased by approximately RMB5.8 million or approximately 223.1% from approximately RMB2.6 million for the six months ended 30 June 2016 to approximately RMB8.4 million for the six months ended 30 June 2017. Despite a decrease in revenue and gross profit for the six months ended 30 June 2017, the increase in profit for the Period was mainly attributable to (i) the recognition as other income and gains of non-recurrent government grants of approximately RMB1.9 million granted to Zhuhai HongGuang. Consequently, the amount of other income and gains for the Period increased from approximately RMB0.8 million in the Previous Period to approximately RMB2.0 million; (ii) Zhuhai HongGuang is entitled to a reduction in the rate of enterprise income tax from 25% to 15%; and (iii) the recognition of a non-recurring income tax credit of approximately RMB2.6 million which results in a reduction of enterprise income tax payable.

Net Profit Margin

The net profit margin was 16.0% for the six months ended 30 June 2017, as compared to that of 4.3% for the six months ended 30 June 2016. The increase was mainly due to the increase in other income and gains and decrease in income tax expense.

Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: 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 the actual business progress for the six months ended 30 June 2017:

Business strategies up to 30 June 2017 as set out in the Prospectus	Actual business progress up to 30 June 2017
— Expanding our production capacity	The Group has purchased 14 additional machineries for LED bead encapsulation during the Period.
— Developing our Group's sales channels	The Group has added three sales and marketing staff during the Period and in the process of exploring PRC and overseas markets.
— Reduction of our gearing ratio	The Group has fully repaid all bank loans during the Period and successfully reduced our gearing ratio.

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

In light of our sales decline during the Period, the Group has utilized the net proceeds from the Listing at a slower rate compared to our original plan.

Management Discussion and Analysis (Continued)

Use of Proceeds

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

Use of proceeds	Net proceeds HK\$ million	Utilised HK\$ million	Unutilised HK\$ million
Expansion of the Group’s production capacity	21.7	1.8	19.9
Developing the Group’s sales channels	0.8	0.1	0.7
Repayment of bank loans	11.4	11.4	—
General working capital of the Group	3.5	—	3.5
	37.4	13.3	24.1

Liquidity, Financial Resources and Capital Structure

For the six months ended 30 June 2017, the Group recorded net cash flows used in the operating activities of approximately RMB3.5 million as compared to net cash flows used in the operating activities of approximately RMB8.7 million for the six months ended 30 June 2016, primarily due to the decrease in trade and bills receivables during the six months ended 30 June 2017, as compared to the increase in trade and bills receivables in the corresponding period in 2016.

As at 30 June 2017, the Group had net current assets of approximately RMB102.8 million (31 December 2016: RMB96.0 million). The Group’s current ratio (i.e. total current assets at the end of the period divided by total current liabilities at the end of the period) as at 30 June 2017 was approximately 8.0 (31 December 2016: 2.5). The increase was primarily due to the full repayment of bank borrowings and the decrease in trade payables during the six months ended 30 June 2017.

Management Discussion and Analysis (Continued)

As at 30 June 2017, the Group had total cash and bank balances of approximately RMB24.4 million (31 December 2016: RMB0.6 million). The increase in total cash and bank balances was mainly due to the net cash flows generated from the operating activities at the amount of approximately RMB40.9 million.

As at 30 June 2017, the total available banking facilities of the Group were nil (31 December 2016: RMB14.7 million). The total borrowing drawn down from our banking facilities as at 30 June 2017 was nil (31 December 2016: RMB14.7 million).

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 30 December 2016, since then there was no change in the capital structure of the Group. The capital of the Company comprises only ordinary shares. As at 30 June 2017, the equity attributable to owners of the Company amounted to approximately RMB121.9 million (31 December 2016: RMB114.6 million).

Gearing Ratio

As at 30 June 2017, the Group has gearing ratio (i.e. total debt at the end of the period divided by total equity at the end of the period) of 0% compared to that of 12.8% as at 31 December 2016. The decrease was mainly due to the full repayment of bank borrowings during the Period.

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 30 June 2017, 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

Management Discussion and Analysis (Continued)

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 <i>(Note 2, 5)</i>	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%
Mr. Lin Qi Jian <i>(Note 3, 5)</i>	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%
Mr. Chiu Kwai San <i>(Note 4, 5)</i>	Interest in a controlled corporation; interest held jointly with another person	300,000,000 (L)	75.00%

Notes:

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

Management Discussion and Analysis (Continued)

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

Save as disclosed above, as at 30 June 2017, 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.

Management Discussion and Analysis (Continued)

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

As at 30 June 2017, 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 <i>(Note 2, 5)</i>	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%
Star Eagle Enterprises Limited <i>(Note 3, 5)</i>	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%
Bigfair Enterprises Limited <i>(Note 4, 5)</i>	Beneficial owner; interest held jointly with another person	300,000,000 (L)	75.00%

Notes:

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

Management Discussion and Analysis (Continued)

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

Save as disclosed above, as at 30 June 2017, 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.

Share Option Scheme

The share option scheme was adopted by the shareholders of the Company and was effective on 2 December 2016 (the “Share Option Scheme”). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 30 June 2017, no share option was outstanding under the Share Option Scheme. No share option has been granted by the Company under the Share Option Scheme since its adoption.

Exempted Continuing Connected Transaction

During the six months ended 30 June 2017, the Group entered into certain transactions with “related parties” as defined under the applicable accounting standards and the details of the material related party transactions (the “Transactions”) are disclosed in note 10 to the condensed consolidated financial statements of this report.

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

Management Discussion and Analysis (Continued)

Significant Investments

As at 30 June 2017, there was no significant investment held by the Group.

Material Acquisitions and Disposals

The Group did not carry out any material acquisition nor disposal of any subsidiary during the Period.

Operating Lease Commitments

The Group leased one property in the PRC from a related party for use as office and factory during the six months ended 30 June 2017. As at 30 June 2017, the Group's operating lease commitments amounted to approximately RMB3.0 million (31 December 2016: approximately RMB3.2 million).

Capital Commitments

As at 30 June 2017, the Group has capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to RMB0.1 million (31 December 2016: RMB0.8 million).

Contingent Liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the six months ended 30 June 2017, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 30 June 2017, the Group employed 117 employees (31 December 2016: 111 employees). Employee costs (including Directors' remuneration, wages, salaries and other benefits and contribution to defined contribution pension plans) amounted to approximately RMB3.7 million for the six months ended 30 June 2017 (2016: approximately RMB3.0 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 the employees' performance.

Management Discussion and Analysis (Continued)

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

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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 during the six months ended 30 June 2017.

Corporate Governance and Compliance with the Corporate Governance Code

The Company adopted the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for the provision A.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual, the Board is satisfied that the Company had complied with the CG Code during the six months ended 30 June 2017.

Mr. Zhao Yi Wen ("Mr. Zhao") is the chairman and the chief executive of the Company. 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.

Disclosure of Change of Information of Director under Rules 17.50A(1) of the GEM Listing Rules

Mr. Chan Chung Kik, Lewis has been appointed as an independent non-executive director of Founder Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 418) and Peking University Resources (Holdings) Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 618), since 31 March 2017.

Management Discussion and Analysis (Continued)

Save as disclosed above, there is no change in the information of each Director that is required to be disclosed under Rules 17.50A(1) of the GEM Listing Rules, since the publication of 2016 Annual Report.

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"), except for (i) Lego Corporate Finance Limited was the Company's sponsor in relation to the Listing; and (ii) the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 27 May 2016, which commencing on 30 December 2016, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 30 June 2017 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Audit Committee and Review of Accounts

The audit committee of the Company (the "Audit Committee") has discussed and reviewed with management, the unaudited condensed consolidated financial statements of the Group for the Period, which was of the opinion that such statements complied with the applicable accounting standards and requirements, and that adequate disclosures have been made. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Chan Chung Kik Lewis, Dr. Wu Wing Kuen, B.B.S. and Professor Chow Wai Shing, Tommy. Mr. Chan Chung Kik, Lewis is the chairman of the Audit Committee who has appropriate professional qualifications and experience as required by the GEM Listing Rules.

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

Hong Kong, 9 August 2017

* For identification purpose only