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 2019

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CONTENTS

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Directors

Executive Directors

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

Non-executive Director

Mr. CHIU Kwai San (趙桂生)

Independent Non-executive Directors

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

Audit Committee

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

Nomination Committee

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(Chairman)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Professor CHOW Wai Shing, Tommy (周偉誠)

Remuneration Committee

Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Chairman)
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Mr. CHAN Wing Kin (陳永健)

Company Secretary

Mr. CHAN Wing Kin (陳永健)

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UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

For the six months ended 30 June 2019

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 2019 (the "**Period**"), together with the comparative unaudited figures for the corresponding period in 2018 (the "**Previous Period**"), as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Three months ended 30 June 2019 RMB'000 (unaudited)	Three months ended 30 June 2018 RMB'000 (unaudited)	Six months ended 30 June 2019 RMB'000 (unaudited)	Six months ended 30 June 2018 RMB'000 (unaudited)
Revenue	3	**54,555**	34,726	**89,662**	62,357
Cost of sales		**(41,406)**	(27,030)	**(68,404)**	(48,715)
Gross profit		**13,149**	7,696	**21,258**	13,642
Other income and gains	3	**294**	22	**550**	23
Selling and distribution expenses		**(336)**	(234)	**(637)**	(483)
Administrative and other expenses		**(8,317)**	(4,312)	**(15,550)**	(6,662)
Provision on expected credit loss on trade and bills receivables		**—**	—	**(162)**	—
Finance costs	4	**(115)**	—	**(168)**	—
Profit before income tax expense		**4,675**	3,172	**5,291**	6,520
Income tax expense	5	**(1,317)**	(740)	**(2,002)**	(1,447)
Profit for the period attributable to owners of the Company		**3,358**	2,432	**3,289**	5,073
Other comprehensive income					
Item that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations		**291**	803	**(91)**	79
Total comprehensive income for the period attributable to owners of the Company		**3,649**	3,235	**3,198**	5,152
Earnings per share attributable to owners of the Company					
— Basic and diluted (RMB cents)	7	**0.84**	0.61	**0.82**	1.27

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 June 2019

	Notes	**30 June 2019 RMB'000 (unaudited)**	31 December 2018 RMB'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	2, 8	**19,495**	16,349
Intangible assets		**1,921**	2,262
Prepayments and deposits	10	**3,604**	931
Deferred tax assets		**466**	466
		25,486	20,008
Current assets			
Inventories		**20,597**	16,664
Trade and bills receivables	9	**72,440**	94,351
Prepayments and other receivables	10	**15,298**	7,282
Financial assets at fair value through profit or loss	11	**6,290**	6,905
Pledged bank deposits	12	**1,000**	3,960
Cash and cash equivalents	12	**51,488**	49,778
		167,113	178,940
Current liabilities			
Trade and bills payables	13	**17,594**	40,260
Other payables and accruals		**12,192**	6,547
Lease liabilities	2(c)	**296**	—
Bank borrowings	14	**6,350**	—
Current tax liabilities		**1,163**	1,931
		37,595	48,738
Net current assets		**129,518**	130,202
Non-current liabilities			
Lease liabilities	2(c)	**1,596**	—
		1,596	—
Net assets		**153,408**	150,210
EQUITY			
Equity attributable to owners of the Company			
Share capital		**3,580**	3,580
Reserves		**149,828**	146,630
Total equity		**153,408**	150,210

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019 (audited) (Note)	**3,580**	**46,162**	**10,480**	**580**	**35,972**	**(4,818)**	**58,254**	**150,210**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**3,289**	**3,289**
Exchange differences on translating foreign operations	**—**	**—**	**—**	**—**	**—**	**(91)**	**—**	**(91)**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**(91)**	**3,289**	**3,198**
Transfer to statutory reserve	**—**	**—**	**1,135**	**—**	**—**	**—**	**(1,135)**	**—**
At 30 June 2019 (unaudited)	**3,580**	**46,162**	**11,615**	**580**	**35,972**	**(4,909)**	**60,408**	**153,408**
At 1 January 2018 (audited)	3,580	46,162	7,419	580	35,972	(5,507)	37,419	125,625
Profit for the period	—	—	—	—	—	—	5,073	5,073
Exchange differences on translating foreign operations	—	—	—	—	—	79	—	79
Total comprehensive income for the period	—	—	—	—	—	79	5,073	5,152
Transfer to statutory reserve	—	—	820	—	—	—	(820)	—
At 30 June 2018 (unaudited)	3,580	46,162	8,239	580	35,972	(5,428)	41,672	130,777

Note: The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated (See Note 2).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from operating activities		
Profit before income tax	**5,291**	6,520
Adjustments for:		
Depreciation of property, plant and equipment (note)	**1,718**	1,621
Depreciation of right-of-use assets	**163**	—
Amortisation of intangible assets	**341**	341
Interest income	**(534)**	(1)
Finance costs	**125**	—
Interest element of lease rentals paid	**43**	—
Exchange gains, net	**(48)**	(84)
Reversal of impairment loss on trade receivables	**—**	(66)
Provision of expected credit loss on financial asset	**162**	—
Operating profit before working capital changes	**7,261**	8,331
Increase in inventories	**(3,933)**	(2,279)
Decrease/(increase) in trade and bills receivables	**21,749**	(660)
Increase in prepayments and other receivables	**(10,741)**	(306)
Decrease in trade and other payables	**(17,021)**	(708)
Cash (used in)/generated from operations	**(2,685)**	4,378
Income tax paid	**(2,770)**	(1,712)
Net cash flows (used in)/generated from operating activities	**(5,455)**	2,666

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from investing activities		
Purchases of property, plant and equipment	**(2,990)**	(436)
Decrease in financial assets at fair value through profit or loss, net	**615**	—
Decrease/(increase) in pledged deposits	**2,960**	(819)
Interest received	**534**	1
Net cash flows generated from/(used in) investing activities	**1,119**	(1,254)
Cash flows from financing activities		
Repayment to a director	**—**	(844)
Interest paid on bank borrowings	**(125)**	—
Capital element of lease rentals paid	**(143)**	—
Interest element of lease rentals paid	**(43)**	—
Proceeds from bank borrowings	**12,000**	—
Repayment of bank borrowings	**(5,650)**	—
Net cash flows generated from/(used in) financing activities	**6,039**	(844)
Net increase in cash and cash equivalents	**1,703**	568
Effect of exchange rate changes on cash and cash equivalents	**7**	173
Cash and cash equivalents at the beginning of period	**49,778**	15,815
Cash and cash equivalents at the end of period	**51,488**	16,556

Note: Items of property, plant and equipment other than right-of-use assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 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.

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 and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are consistent with those adopted by the Group in its audited consolidated financial statements for the year ended 31 December 2018 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the "**New and Revised HKFRSs**") (which include all HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA that are adopted for the first time for the current periods financial statements. Details of any changes in accounting policies are set out in note 2.

The Group has not applied any new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such new and revised standards, amendments or interpretations to the Group but is yet to be in a position to state whether they would have any material financial impact on the Group's results of operations and financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

1. General Information, Basis of Preparation and Accounting Policies (Continued)

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared on the historical cost basis. The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

The condensed consolidated financial statements have not been audited by the Company's auditors, but have been reviewed by the Audit Committee of the Company.

2. Changes in HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 — Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases — incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019.

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

— right-of-use assets that meet the definition of investment property are carried at fair value;

— right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and

— right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.35%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

(b) Transitional impact (Continued)

The following table reconciles the operating lease commitment as disclosed in note 16 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitment at 31 December 2018	2,436
— rental adjustment (note)	(116)
Less: total future interest expenses	(285)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	2,035
Add: finance lease liabilities recognised as at 31 December 2018	—
Total lease liabilities recognised at 1 January 2019	2,035

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

Note: The rental adjustment represented the effect of the change in value-added tax rate in 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

(b) Transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	**Capitalisation of operating lease contracts**	**Carrying amount at 1 January 2019**
	RMB'000	RMB'000	RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	16,349	2,035	18,384
Total non-current assets	20,008	2,035	22,043
Lease liabilities (current)	—	290	290
Current liabilities	48,738	290	49,028
Net current assets	130,202	(290)	129,912
Total assets less current liabilities	150,210	(290)	149,920
Lease liabilities (non-current)	—	1,745	1,745
Total non-current liabilities	—	1,745	1,745
Net assets	150,210	—	150,210

The analysis of the net book value of the Group's right-of-use assets by class is rental premises leased for own use at the end of the reporting period and at the date of transition to HKFRS 16.

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	296	371	290	371
After 1 year but 2 years	309	371	302	371
After 2 years but within 5 years	1,013	1,114	991	1,114
After 5 years	274	278	452	464
	1,596	1,763	1,745	1,949
	1,892	2,134	2,035	2,320
Less: total future interest expenses		(242)		(285)
Present value of lease liabilities		1,892		2,035

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

(d) Impact on the financial result, segment results and cash flows of the group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. Changes in HKFRSs (Continued)

HKFRS 16 — Leases (Continued)

(d) Impact on the financial result, segment results and cash flows of the group (Continued)

	2019			2018	
	Amounts reports under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	5,459	163	186	5,436	6,520
Finance costs	(168)	43	—	(125)	—
Profit before taxation	5,291	206	186	5,311	6,520
Profit for the year	3,289	206	186	3,309	5,073

	2019		2018	
	Amounts reported under HKFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under HKAS 17 (B) RMB'000	Hypothetical amount for 2019 as if under HKAS 17 (C=A+B) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash (used in)/generated from operations	(2,685)	(186)	(2,871)	4,378
Net cash generated from operating activities	(5,455)	(186)	(5,641)	2,666
Capital element of lease rentals paid	(143)	143	—	—
Interest element of lease rentals paid	(43)	43	—	—
Net cash generated from/(used in) financing activities	6,039	186	6,225	(844)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue recognised at a particular point in time		
Sales of LED beads	**85,904**	61,388
Sales of LED lighting products	**3,758**	969
	89,662	62,357
Other income and gains		
Bank interest income	**534**	1
Others	**16**	22
	550	23

4. Finance Costs

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank borrowings repayable within five years	**125**	—
Interest expense on lease liabilities	**43**	—
	168	—

5. 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.

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 2019 and 2018.

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 enterprise income tax (the "**EIT**") rate from 25% to 15% for the period from 1 January 2016 to 31 December 2018.

The expiry date of Zhuhai HongGuang's New and High Technology Enterprise Certificate is 30 November 2019. Pursuant to the relevant PRC enterprise income tax laws, regulations and implementation guidance notes, Zhuhai HongGuang can, as a transitional measure, continue to pay the EIT at the preferential rate of 15% until the renewal approval of the New and High Technology Enterprise qualification before end of 2019.

Therefore, provision for the EIT in the PRC for Zhuhai HongGuang is calculated based on the tax rate of 15% on Zhuhai HongGuang's estimated assessable profits for the six months ended 30 June 2019 and 2018.

6. Dividend

No dividend has been paid or declared by the Company for the six months ended 30 June 2019 (2018: Nil), or by any of the companies now comprising the Group during the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

7. Earnings Per Share

The basic earnings per share for the period is calculated based on the profit attributable to owners of the Company of RMB3,290,000 (2018: RMB5,073,000), and the weighted average number of ordinary shares of 400,000,000 issued during the six months ended 30 June 2019 and 2018.

The Company did not have any potential dilutive shares for the six months ended 30 June 2019 and 2018. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

8. Property, Plant and Equipment

(a) Right-of-use assets

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2.

Zhuhai HongGuang entered into a lease agreement in 2015 for use of the production plant, and therefore recognised the additions to right-of-use assets of approximately RMB1,872,000, as at 30 June 2019.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2019, the Group acquired items of plant and machinery with a cost of approximately RMB2,990,000 (six months ended 30 June 2018: approximately RMB436,000). There was no disposal of property, plant and equipment during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

9. Trade and Bills Receivables

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Trade receivables	**72,440**	94,341
Bills receivables	**—**	10
	72,440	94,351

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

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
0 to 30 days	**23,059**	34,187
31 to 60 days	**14,375**	24,739
61 to 90 days	**9,161**	16,361
91 to 120 days	**10,586**	8,083
121 to 365 days	**15,892**	11,448
Over 1 year	**1,444**	1,449
	74,517	96,267
Less: Impairment of trade and bills receivables	**(2,077)**	(1,916)
	72,440	94,351

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

10. Prepayments and Other Receivables

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Other receivables	64	51
Prepayments and deposits (note)	18,838	8,162
	18,902	8,213
Less: non-current portion		
Prepayments and deposits for acquisition of property, plant and equipment	(3,604)	(931)
Current portion	15,298	7,282

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 RMB14,819,000 (2018: RMB6,783,000) for purchase of raw material.

11. Financial Assets at Fair Value Through Profit or Loss

As at 30 June 2019, the financial assets at fair value through profit or loss represent the investment in term deposits that the interest income are indexed to performance of investment portfolios comprising corporate bonds, interest bearing deposit and other kind financial asset or group of financial assets. The interest amounts are not consideration for just the time value of money on the principal amount outstanding.

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

At 30 June 2019, the financial assets at fair value through profit loss pledged as security for bills payable amounted to RMB6,289,000 issued by the Group.

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

12. Pledged Bank Deposits/Bank Balances and Cash

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Bank balances and cash	51,488	49,778
Pledged bank deposits (note)	1,000	3,960
Denominated in RMB	44,753	44,804
Denominated in HK$	7,730	8,929
Denominated in US$	5	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: As at 30 June 2019, pledged bank deposit represented time deposit of RMB1,000,000 pledged as security for the bank borrowings amounted to RMB6,300,000.

13. Trade and Bills Payables

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Trade payables	14,594	29,405
Bills payables	3,000	10,855
	17,594	40,260

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

13. Trade and Bills Payables (Continued)

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

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
0 to 30 days	**4,168**	11,770
31 to 60 days	**1,902**	3,740
61 to 90 days	**1,610**	8,906
91 to 120 days	**2,981**	5,873
121 to 365 days	**6,889**	9,684
Over 1 year	**44**	287
	17,594	40,260

14. Bank Borrowings

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Secured interest-bearing bank borrowings:		
— Repayable on demand or within one year	**6,350**	—

The Group's bank borrowings are secured by a pledged deposit of RMB1,000,000 and corporate guarantee from Zhuhai HongGuang.

The effective interest rates on the Group's bank borrowings for the year were 4.6%.

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

15. Related Party Transactions

During the six months ended 30 June 2019, 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 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
珠海經濟區利佳電子發展有限公司	Utility expense	**1,007**	791
珠海經濟區利佳電子發展有限公司	Rental expense	**186**	167
		1,193	958

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.

16. Operating Lease Commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Rental premise RMB'000
No later than one year	390
Later than one year and not later than five years	1,559
Later than five years	487
	2,436

The Group is the lessee in respect of the production plant held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

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 People's Republic of China (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 the products to the customers with their acceptance of the products.

Business Review

The Group's revenue increased from approximately RMB62.4 million for the six months ended 30 June 2018 to approximately RMB89.7 million for the six months ended 30 June 2019. Whilst significant revenue was recognised from the sales of slim LED beads in the second half of 2018, the demand for slim LED beads continued its strong momentum in the first half of 2019, which contributed approximately RMB26.4 million to the Group's revenue for the Period, as compared to only approximately RMB1.6 million for the Previous Period.

Strong market demand for the Group's LED beads is expected to persist. According to a recent industry research report conducted by an independent industry consultant, the total market size of backlight LED products and LED beads in the PRC are expected to increase at a compound annual growth rate of approximately 6.4% and 12.2%, respectively, up to the year 2023.

Profit for the Period amounted to approximately RMB3.3 million (approximately RMB5.1 million for the six months ended 30 June 2018), which represents a decrease of approximately RMB1.8 million or approximately 35.3% as compared to the corresponding period in 2018. The decrease in profit was primarily due to the increase in administrative and other expenses for the six months ended 30 June 2019 as compared to the corresponding period in 2018, mainly attributable to (i) the increase in research and development expenses; and (ii) the increase in the professional services expenses in relation to the preparation of the transfer of listing of the Company's shares from the GEM to the Main Board of the Stock Exchange.

On 6 May 2019, the Company submitted a formal application to the Stock Exchange for a proposed transfer of listing from GEM to the Main Board of the Stock Exchange. The Directors believe that the transfer of listing will enhance the profile of the Group and the attractiveness of the shares of the Company to both institutional and retail investors and lead to greater trading liquidity of the shares of the Company. The Directors also consider that the transfer of listing will strengthen the Group's position in the industry and enhance the Group's competitive strengths in retaining and attracting professional staff and customers. Therefore, the Directors are of the view that the transfer of listing will be beneficial to the Group's future growth as well as business development which will create a long-term value to the shareholders of the Company.

In May 2019, the Group's wholly-owned subsidiary, Zhuhai HongGuang Lighting Fixtures Company Limited* ("**Zhuhai HongGuang**") (珠海宏光照明器材有限公司) was accredited with the IATF 16949:2016, a widely used international standard for quality management in the automotive industry. The Directors believe the accreditation will help the Group to open up more business opportunities in the future, as IATF 16949 applies to the design, development, production, installation and servicing of automotive-related product (e.g. display panels used in vehicles). Apart from the IATF 16949:2016, Zhuhai HongGuang also holds the ISO 9001:2015 and ISO 14001:2015 certifications on quality management.

During the six months ended 30 June 2019, registration of 6 patents were further granted to Zhuhai HongGuang. As at 30 June 2019, the Group is the registered proprietor of 24 patents in the PRC.

Financial Review

Revenue

For the six months ended 30 June 2019, total revenue was approximately RMB89.7 million, representing an increase of approximately 43.8% as compared with the Previous Period (2018: approximately RMB62.4 million). The increase was mainly 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:

	Six months ended 30 June			
	2019		2018	
	RMB'000	**%**	RMB'000	%
	(unaudited)		(unaudited)	
LED beads	**85,904**	**95.8**	61,388	98.4
LED lighting products	**3,758**	**4.2**	969	1.6
Total	**89,662**	**100.0**	62,357	100.0

For the six months ended 30 June 2019, revenue from LED beads amounted to approximately RMB85.9 million (2018: approximately RMB61.4 million), accounting for approximately 95.8% of the total revenue (2018: approximately 98.4%). The increase in revenue was mainly due to an increase in sales volume during the Period, as the demand for backlight LED products and LED beads in the PRC remained robust.

Revenue from LED lighting products during the Period amounted to approximately RMB3.8 million (2018: approximately RMB1.0 million), representing approximately 4.2% of the total revenue (2018: approximately 1.6%).

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 40.5% from approximately RMB48.7 million for the six months ended 30 June 2018 to approximately RMB68.4 million for the six months ended 30 June 2019, reflecting an increase in the sales volume of the LED beads and LED lighting products, which mainly led to the increase in the cost of material used.

Gross Profit and Gross Profit Margin

The gross profit increased from approximately RMB13.6 million for the six months ended 30 June 2018 to approximately RMB21.3 million for the six months ended 30 June 2019. The gross profit margin increased from approximately 21.9% for the six months ended 30 June 2018 to approximately 23.7% for the six months ended 30 June 2019. The following table sets forth a breakdown of the gross profit and gross profit margin by segment for the periods indicated:

	Six months ended 30 June 2019		Six months ended 30 June 2018	
	Gross profit RMB'000 (unaudited)	**Gross profit margin %**	Gross profit RMB'000 (unaudited)	Gross profit margin %
LED beads	**19,445**	**22.6**	13,239	21.6
LED lighting products	**1,813**	**48.2**	403	41.6
Total gross profit/gross profit margin	**21,258**	**23.7**	13,642	21.9

The gross profit margin of LED beads increased from approximately 21.6% for the six months ended 30 June 2018 to approximately 22.6% for the six months ended 30 June 2019. 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 increased from approximately 41.6% for the six months ended 30 June 2018 to approximately 48.2% for the six months ended 30 June 2019. Such increase was mainly due to the higher proportion of sales of LED lighting products with higher profit margin during the Period, as compared to the Previous Period.

Other Income and Gains

Other income and gains of the Group increased by approximately 3,000.0% from approximately RMB0.02 million for the six months ended 30 June 2018 to approximately RMB0.6 million for the six months ended 30 June 2019, which was mainly due to the increase in bank interest income during the Period.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 20.0% from approximately RMB0.5 million for the six months ended 30 June 2018 to approximately RMB0.6 million for the six months ended 30 June 2019. The increase in selling and distribution expenses was mainly attributable to the increase in sales and marketing staff costs.

Administrative and Other Expenses

The Group's administrative and other expenses increased by approximately 132.8% from approximately RMB6.7 million for the six months ended 30 June 2018 to approximately RMB15.6 million for the six months ended 30 June 2019. 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 (i) the increase in research and development expenses; and (ii) the increase in the professional services expenses in relation to the preparation of transfer of the Company's listing from the GEM to the Main Board of the Stock Exchange. The research and development expenses were approximately RMB5.2 million for the six months ended 30 June 2019 (2018: approximately RMB2.5 million), as the Group has placed more emphasis on the research and development in relation to the slim LED beads together with the commission of the School of Applied Physics and Material Science of Wuyi University (五邑大學) by the Group to conduct specific research projects for the Group starting in the second half of 2018. The professional services expenses in relation to the preparation of transfer from the GEM to the Main Board of the Stock Exchange were approximately RMB5.4 million for the six months ended 30 June 2019 (2018: nil).

Finance Costs

The Group's finance costs was approximately RMB0.2 million for the six months ended 30 June 2019 (2018: nil). The increase in finance costs was mainly attributable to the new bank borrowings during the Period. As at 30 June 2019, the total available banking facilities of the Group were RMB12.0 million (31 December 2018: nil). The total borrowing drawn down from the banking facilities as at 30 June 2019 was approximately RMB6.4 million (31 December 2018: nil).

Income Tax Expense

Income tax expense of the Group for the Period was approximately RMB2.0 million (2018: approximately RMB1.4 million). The increase in income tax expense was primarily attributable to the Group's increase in revenue during the Period.

Profit for the Period

The profit for the Period decreased by approximately RMB1.8 million or approximately 35.3% from approximately RMB5.1 million for the six months ended 30 June 2018 to approximately RMB3.3 million for the six months ended 30 June 2019. The decrease in profit for the Period was mainly attributable to the increase in administrative and other expenses for the Period, as compared to the Previous Period.

Net Profit Margin

The net profit margin was approximately 3.7% for the six months ended 30 June 2019, compared to that of approximately 8.1% for the six months ended 30 June 2018. The decrease was mainly due to the increase in administrative and other expenses for the Period, as compared to the Previous Period.

Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: nil), in order to cope with the future business development of the Group.

Comparison between Business Objectives with Actual Business Progress

The following is a comparison of the Group's business strategies as set out in the Company's prospectus dated 16 December 2016 (the "**Prospectus**") with actual business progress for the six months ended 30 June 2019:

Business strategies up to 30 June 2019 as set out in the Prospectus	Actual business progress up to 30 June 2019
— Expanding the production capacity	The Group has purchased 42 additional machineries for LED bead encapsulation.
— Developing the Group's sales channels	The Group has recruited 5 sales and marketing staff and in the process of exploring PRC and overseas markets.
— Reduction of the gearing ratio	The Group has fully repaid all bank loans in 2017 and successfully reduced the gearing ratio for the years ended 31 December 2017 and 2018. New bank loans were raised during the six months ended 30 June 2019 for general working capital purpose.

One of the key risks and uncertainties facing the Group is technological risk. During the Period, the Group has continued to put emphasis on research and development and registration of 6 patents were further granted to Zhuhai HongGuang. As at 30 June 2019, the Group is the registered proprietor of 24 patents in the PRC.

Use of Proceeds

Based on the placing price of HK$0.63 per share, the net proceeds from the listing on 30 December 2016, after deducting the underwriting commission and other estimated expenses, amounted to approximately HK$37.4 million. The Group intended to apply such net proceeds in accordance with the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 30 June 2019, 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	13.4	8.3
Developing the Group's sales channels	0.8	0.4	0.4
Repayment of bank loans	11.4	11.4	—
General working capital of the Group	3.5	3.5	—
	37.4	28.7	8.7

Liquidity, Financial Resources and Capital Structure

For the six months ended 30 June 2019, the Group recorded net cash used in operating activities of approximately RMB5.5 million as compared to net cash generated from operating activities of approximately RMB2.7 million for the six months ended 30 June 2018, primarily due to the greater decrease in trade payables and other payables during the six months ended 30 June 2019, as compared to the smaller decrease in trade payables and other payables in the corresponding period in 2018.

As at 30 June 2019, the Group had net current assets of approximately RMB129.5 million (31 December 2018: approximately RMB130.2 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 2019 was approximately 4.4 (31 December 2018: approximately 3.7). The increase was primarily due to the decrease in trade and bills payables during the six months ended 30 June 2019.

As at 30 June 2019, the Group had total cash and bank balances of approximately RMB51.5 million (31 December 2018: approximately RMB49.8 million). The increase in total cash and bank balances was mainly due to the net cash flows generated from financing activities at the amount of approximately RMB6.0 million.

As at 30 June 2019, the total available banking facilities of the Group were RMB12.0 million (31 December 2018: nil). The total borrowing drawn down from the banking facilities as at 30 June 2019 was approximately RMB6.4 million (31 December 2018: nil).

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 2019, the equity attributable to owners of the Company amounted to approximately RMB153.4 million (31 December 2018: approximately RMB150.2 million).

Gearing Ratio

The Group's gearing ratio (i.e. total debt at the end of the period divided by total equity at the end of the period) as at 30 June 2019 was 4.1% (31 December 2018: nil).

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 2019, 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:

1. The letter "L" denotes a long position.

2. 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.

3. 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.

4. The aggregate 300,000,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, a company wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; and (ii) 201,000,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.

5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

Save as disclosed above, as at 30 June 2019, 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 30 June 2019, 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%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

1. The letter "L" denotes a long position.

2. 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.

3. 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.

4. The aggregate 300,000,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, a company wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; and (ii) 201,000,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.

5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

6. Ms. Zhuang Chan Ling is the spouse of Mr. Zhao Yi Wen and is deemed, or taken to be, interested in the Shares in which Mr. Zhao Yi Wen has interest under the SFO.

7. Ms. Xie Wan is the spouse of Mr. Lin Qi Jian and is deemed, or taken to be, interested in the Shares in which Mr. Lin Qi Jian has interest under the SFO.

8. Ms. Wong Ching Ming is the spouse of Mr. Chiu Kwai San and is deemed, or taken to be, interested in the Shares in which Mr. Chiu Kwai San has interest under the SFO.

Save as disclosed above, as at 30 June 2019, 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 2019, 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 2019, 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 15 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.

Significant Investments

As at 30 June 2019, 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.

Capital Commitments

As at 30 June 2019, the Group has capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to RMB2.8 million (31 December 2018: approximately 1.0 million).

Charge on the Group's assets

As at 30 June 2019, the Group pledged the following assets for the issuance of bank acceptance bills by the Group:

(i) time deposits of nil (31 December 2018: approximately RMB3.0 million); and

(ii) financial assets at fair value through profit or loss of approximately RMB6.3 million (31 December 2018: approximately RMB6.9 million).

In addition, as at 30 June 2019, the Group pledged time deposit of RMB1.0 million (31 December 2018: nil) for the Group's bank borrowings.

Contingent Liabilities

As at 30 June 2019, 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 2019, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 30 June 2019, the Group employed 123 employees (31 December 2018: 121 employees). Employee costs (including Directors' remuneration, wages, salaries and other benefits and contribution to defined contribution pension plans) amounted to approximately RMB4.2 million for the six months ended 30 June 2019 (2018: approximately RMB3.7 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' overall remuneration is determined based on the Group's and their performance.

Purchase, 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 2019.

Corporate Governance and Compliance with the Corporate Governance Code

The Company adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for the provision A.2.1 of the CG Code, the Board is satisfied that the Company had complied with the CG Code during the six months ended 30 June 2019.

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zhao Yi Wen ("**Mr. Zhao**") is both the chairman of the Board and the chief executive officer 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 Rule 17.50A(1) of the GEM Listing Rules

Mr. Wu Wing Kuen, B.B.S. has been appointed as an independent non-executive director of EFT Solutions Holdings Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8062), since 26 March 2019.

Saved as disclosed above, the Company is not aware of any other change in the Directors' information that is required to be disclosed under Rule 17.50A(1) of the GEM Listing Rules, since the publication of annual report for the year ended 31 December 2018.

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 acting as the compliance adviser and a joint sponsor in respect of the application for the proposed transfer of listing from the GEM to the Main Board of the Stock Exchange as at the date of this report, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 30 June 2019 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, Mr. 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, 8 August 2019

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

* *For identification purpose only*