



宏光

CHINA HONGGUANG HOLDINGS LIMITED

中國宏光控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8646

2021

Third Quarterly
Report



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This report, for which the directors (collectively the “Directors” and individually a “Director”) of China Hongguang Holdings Limited (the “Company”, together with its subsidiaries, collectively the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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.

This report will be available on the Company’s website www.hongguang.hk and will remain on the “Latest Listed Company Information” page on the GEM website at www.hkgem.com for at least 7 days from the date of its posting.



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. WEI Jiakun (*Chief Executive Officer*)

Ms. LIN Weishan (*Chairwoman*)

Mr. CHEN Biming

Ms. LI Wanna

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. CHEN Xiuyan

Mr. JIA Xiaogang

Mr. WU Yong

AUDIT COMMITTEE

Ms. CHEN Xiuyan (*Chairwoman*)

Mr. JIA Xiaogang

Mr. WU Yong

REMUNERATION COMMITTEE

Mr. WU Yong (*Chairman*)

Ms. CHEN Xiuyan

Mr. JIA Xiaogang

NOMINATION COMMITTEE

Mr. JIA Xiaogang (*Chairman*)

Ms. CHEN Xiuyan

Mr. WU Yong

JOINT COMPANY SECRETARIES

Ms. KWONG Oi Man Patty *HKICPA, CPAA*

Mr. WENG Weilin

AUTHORIZED REPRESENTATIVES

Mr. WEI Jiakun

Mr. WENG Weilin

COMPLIANCE OFFICER

Mr. WEI Jiakun

AUDITOR

KPMG

Certified Public Accountants

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COMPLIANCE ADVISER

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Company Limited

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**PRINCIPAL SHARE REGISTRAR
AND TRANSFER OFFICE**

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TRANSFER OFFICE**

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Middle Section of Meiyang Road
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Jieyang, Guangdong
the PRC

Bank of China Limited

Jieyang Branch
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DBS Bank (Hong Kong) Limited

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STOCK CODE

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COMPANY WEBSITE ADDRESS

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THIRD QUARTERLY UNAUDITED RESULTS

The board of directors (the “Board”) of China Hongguang Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the nine months ended 30 September 2021, together with the unaudited comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2021

| | For the nine months ended 30 September | |
|-------------------------------------|-------------------------------------------|-----------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Revenue | 98,212 | 99,876 |
| Cost of sales | <u>(72,573)</u> | <u>(72,111)</u> |
| Gross profit | 25,639 | 27,765 |
| Other net income | 1,790 | 871 |
| Sales and marketing expenses | (143) | (209) |
| General and administrative expenses | <u>(8,594)</u> | <u>(10,572)</u> |
| Profit from operations | 18,692 | 17,854 |
| Finance costs | <u>(2,968)</u> | <u>(1,790)</u> |
| Profit before taxation | 15,724 | 16,064 |
| Income tax | <u>(2,362)</u> | <u>(2,610)</u> |
| Profit for the period | 13,362 | 13,455 |
| Earnings per share | | |
| Basic and diluted (RMB) | <u>0.045</u> | <u>0.045</u> |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2021

| | For the nine months ended | |
|------------------------------------------------------|----------------------------------|--------------------|
| | 30 September | |
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Profit for the period | 13,362 | 13,455 |
| Other comprehensive income for the period | 828 | — |
| Total comprehensive income for the period | 14,190 | 13,455 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2021

| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | PRC Statutory reserve RMB'000 | Exchange reserve RMB'000 | Retained earnings RMB'000 | Total equity RMB'000 |
|------------------------------------------------------------------------------|-----------------------------|-----------------------------|-------------------------------|----------------------------------------|--------------------------------|---------------------------------|----------------------------|
| Balance at 31 December 2019 and 1 January 2020 (Audited) | —* | 11,464 | (202) | 2,190 | 182 | 97,472 | 111,106 |
| Changes in equity for the nine months ended 30 September 2020 | | | | | | | |
| Total comprehensive income for the period | — | — | — | — | 484 | 13,455 | 13,939 |
| Capitalisation issue | 2,024 | (2,024) | — | — | — | — | — |
| Issuance of shares upon initial public offering, net of issuance costs | 669 | 40,452 | — | — | — | — | 41,121 |
| Balance at 30 September 2020 (Unaudited) | 2,693 | 49,892 | (202) | 2,190 | 666 | 110,927 | 166,166 |
| Balance at 31 December 2020 and 1 January 2021 (Audited) | 2,693 | 49,892 | (202) | 4,377 | (621) | 105,581 | 161,720 |
| Changes in equity for the nine months ended 30 September 2021 | | | | | | | |
| Total comprehensive income for the period | — | — | — | — | 828 | 13,362 | 14,190 |
| Balance at 30 September 2021 (Unaudited) | 2,693 | 49,892 | (202) | 4,377 | 207 | 118,943 | 170,579 |

* The balance represents an amount less than RMB1,000.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

1. GENERAL INFORMATION

China Hongguang Holdings Limited (“the Company”) was incorporated in the Cayman Islands on 25 May 2017 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Upon the completion of a reorganisation (“the Reorganisation”) on 11 July 2018 to prepare for an initial public offering (“the IPO”), the Company became the holding company now comprising the Group. Details of the Reorganisation are set out in the Company’s prospectus dated 31 December 2019 in connection with the IPO of the Company’s shares on GEM (“GEM”) of the Stock Exchange of Hong Kong Limited (“the Listing”). The Company completed the Listing on 13 January 2020. The Company and its subsidiaries (together, “the Group”) are principally engaged in the manufacture and sales of architectural glass products in the People’s Republic of China (“PRC”).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The unaudited condensed consolidated results for the nine months ended 30 September 2021 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), of which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The quarterly financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the unaudited condensed consolidated results

The unaudited condensed consolidated results for the nine months ended 30 September 2021 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the “Functional Currency”). Except for share and per share information, the financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousands, which is the presentation currency.

The measurement basis used in the preparation of the unaudited condensed consolidated results is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group derives all its revenue from the sales of glass products in the PRC.

Revenue represents the sales value of goods sold to customers, net of sales tax and value added tax.

i. Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products lines is as follows:

| | For the nine months ended | |
|--------------------------------------------------------------------|---------------------------|---------------|
| | 30 September | |
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| Disaggregated by major products lines | | |
| – Sales of energy-efficient safety glass products | 89,315 | 92,845 |
| – Sales of smart glass products | 8,897 | 7,031 |
| | <u>98,212</u> | <u>99,876</u> |

All revenue was recognised at a point in time under HKFRS 15.

The Group's customer base is diversified. There is only one individual customer with whom transactions have exceeded 10% of the Group's revenues for the nine months ended 30 September 2021 and 30 September 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

3. REVENUE AND SEGMENT REPORTING (Continued)

(a) Revenue (Continued)

ii. Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for glass products such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations under the contracts for sales of glass products that had an original expected duration of one year or less.

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's most senior executive management for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sale of glass products.

4. OTHER NET INCOME

| | For the nine months ended | |
|-------------------|---------------------------|------------|
| | 30 September | |
| | 2021 | 2020 |
| (Unaudited) | (Unaudited) | |
| RMB'000 | RMB'000 | |
| Government grants | 1,879 | 1,073 |
| Others | (89) | (202) |
| | <u>1,790</u> | <u>871</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

| | For the nine months ended 30 September | |
|---------------------------------------------|-------------------------------------------|--------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Interest on bank loans and other borrowings | 2,968 | 1,119 |
| | <u>2,968</u> | <u>1,119</u> |

(b) Staff costs

| | For the nine months ended 30 September | |
|-----------------------------------------------------------|-------------------------------------------|--------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Contributions to defined contribution retirement plan (i) | 301 | 53 |
| Salaries, wages and other benefits | 3,460 | 3,529 |
| | <u>3,761</u> | <u>3,582</u> |

- (i) Employees of the Group's PRC subsidiary are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiary contributes funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

5. PROFIT BEFORE TAXATION (Continued)

(b) Staff costs (Continued)

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) Other items

| | For the nine months ended | |
|--------------------------------------------------------------------------|---------------------------|-------------|
| | 30 September | |
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Depreciation of property, plant and equipment | 1,834 | 1,841 |
| Depreciation of right-of-use assets | 80 | 110 |
| Provision/(reversal) of impairment losses on trade and other receivables | 9,727 | 3,613 |
| Research and development costs (i) | 7,066 | 6,140 |
| Cost of inventories (ii) | 72,573 | 72,111 |

- (i) Research and development costs included staff costs of RMB409 thousand, RMB423 thousand, and depreciation of RMB1,488 thousand, RMB1,488 thousand, for the nine months ended 30 September 2021 and 2020, which are also included in the respective total amounts disclosed separately above or in note 5(b).
- (ii) Cost of inventories included staff costs of RMB2,715 thousand, and RMB2,584 thousand, and depreciation of RMB3,891 thousand and RMB3,883 thousand, for the nine months ended 30 September 2021 and 2020 respectively, which are also included in the respective total amounts disclosed separately above or in note 5(b).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

6. INCOME TAX IN THE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the condensed consolidated statement of profit or loss represents:

| | For the nine months ended | |
|---------------------------------------------------|----------------------------------|-------------|
| | 30 September | |
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Current tax | | |
| Provision for PRC income tax for the period | 2,362 | 2,610 |
| Deferred tax | | |
| Origination and reversal of temporary differences | — | — |
| | 2,362 | 2,610 |

- i. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- ii. No provision for Hong Kong Profits Tax was made for the subsidiary incorporated in Hong Kong as the subsidiary did not have income subject to Hong Kong Profits Tax during the reporting period.
- iii. The PRC subsidiary, Jieyang Hongguang Coated Glass Co., Ltd. ("Hongguang Glass") is subject to the PRC statutory income tax rate of 25%. Hongguang Glass was accredited as a "High and New Technology Enterprise" in October 2014 and renewed its certificate in December 2020 for another three years from 2021 to 2023 during which it is entitled to a preferential income tax rate of 15% pursuant to the current applicable CIT Law and its regulations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

7. EARNINGS PER SHARE

(a) Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholder of the Company of RMB13,362 thousand (2020: RMB13,455 thousand), and 297,291,667 ordinary shares in issue during nine months ended 30 September 2021 (2020: the weighted average of 297,291,667 ordinary shares), after adjusting the capitalisation issue occurred after the end of the reporting period, calculated as follows:

(i) Weighted average number of ordinary shares

| | For the nine months ended 30 September | |
|-----------------------------------------------------------------------------|-------------------------------------------|-------------|
| | 2021 | 2020 |
| Issued ordinary shares at 1 January | 225,000,000 | 225,000,000 |
| Effect of capitalisation issue (note (i) below) | — | — |
| Effect of shares issued by initial public offering on 13 January 2020 | 72,291,667 | 72,291,667 |
| Issued ordinary shares at 30 September | 297,291,667 | 297,291,667 |

Notes:

- (i) The number of ordinary shares outstanding before the capitalisation issue completed on 13 January 2020 was adjusted for the proportionate increase in the number of ordinary shares outstanding without a corresponding change in resources, as if the capitalisation issue had occurred at the beginning of the earliest period presented.
- (ii) After the Company was listed on the Stock Exchange on 13 January 2020, a total of 75 million shares were issued at HK\$0.77 per share, raising HK\$57.87 million in total.

There were no dilutive potential ordinary shares and, therefore, diluted earnings per share are same as the basic earnings per share.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the nine months ended 30 September 2021

8. DIVIDEND

The Directors did not recommend the payment of any dividend for the nine months ended 30 September 2021 (2020: Nil).

9. APPROVAL OF FINANCIAL INFORMATION

This financial information was approved and authorised for issue by the Board on 12 November 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The Group primarily engages in the manufacture and sale of architectural glass products, including energy-efficient safety glass products and smart glass product in Southern China, under our own brand “Hongguang”. Our energy-efficient safety glass products include coated glass, insulating glass, laminated glass and tempered glass; and our smart glass product is mainly dimming glass. With a diversified product portfolio, we are able to cater to a variety of customer requirements and specifications, which helps us to increase our profitability and adjust to market situations and industry trends. Meanwhile, our strong research and development capabilities, in particular, our proprietary technologies and technological know-how will allow us to continue to offer high-quality products and be updated with the market developments.

BUSINESS REVIEW

The Board hereby presents the interim results of the Group for the nine months ended 30 September 2021, together with the comparative figures for the corresponding period ended 30 September 2020.

FINANCIAL REVIEW

Revenue

Our revenue is generated from the sales of the following product categories: (1) energy-efficient safety glass products; and (2) smart glass product.

The table below sets forth the breakdown of the Group’s revenue by product category:

| | For the nine months ended 30 September | | | |
|---------------------------------------------------|----------------------------------------|------------|---------------------|------------|
| | 2021 (Unaudited) | | 2020 (Unaudited) | |
| | RMB'000 | % | RMB'000 | % |
| – Sales of energy-efficient safety glass products | 89,315 | 91 | 92,845 | 93 |
| – Sales of smart glass products | 8,897 | 9 | 7,031 | 7 |
| | <u>98,212</u> | <u>100</u> | <u>99,876</u> | <u>100</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

For the nine months ended 30 September 2021, revenue arising from energy-efficient safety glass products amounted to RMB89,315 thousand (2020: RMB92,845 thousand), representing 91% (2020: 93%) of our total revenue.

For the nine months ended 30 September 2021, revenue arising from smart glass product amounted to RMB8,897 thousand (2020: RMB7,031 thousand).

The Group's total revenue decreased 1.67% from RMB99,876 thousand for the nine months ended 30 September 2020 to RMB98,212 thousand for the nine months ended 30 September 2021. The decrease was mainly due to the revenue decrease from the production and sales of energy-efficient safety glass products.

Gross profit and gross profit margin

Our gross profit decreased from RMB27,765 thousand for the nine months ended 30 September 2020 to RMB25,639 thousand for the nine months ended 30 September 2021. The decrease was mainly due to the decrease in gross profit margin of our products for the period. The decrease of our product gross profit margin was mainly due to the increasing of raw material during the first three quarters of 2021 (for the nine months ended 30 September 2021: 26.1%; for the nine months ended 30 September 2020: 27.8%). The table below sets forth the breakdown of our gross profit and gross profit margin by product category for the periods indicated:

| | For the nine months ended 30 September | | | |
|---------------------------------------------------|----------------------------------------|-------------|---------------|-------------|
| | 2021 | | 2020 | |
| | (Unaudited) | | (Unaudited) | |
| | RMB'000 | % | RMB'000 | % |
| – Sales of energy-efficient safety glass products | 23,240 | 26.0 | 25,750 | 27.7 |
| – Sales of smart glass products | 2,399 | 27.0 | 2,015 | 28.7 |
| Total gross profit/gross profit margin | <u>25,639</u> | <u>26.1</u> | <u>27,765</u> | <u>27.8</u> |

The gross profit margin of energy-efficient safety glass products slightly decreased from 27.7% to 26.0%; the gross profit margin of smart glass product slightly decreased from 28.7% to 27.0%.



MANAGEMENT DISCUSSION AND ANALYSIS

Other net income

The Group's other net income increased from RMB871 thousand for the nine months ended 30 September 2020 to RMB1,790 thousand for the nine months ended 30 September 2021.

Cost of sales

The Group's cost of sales increased from RMB72,111 thousand for the nine months ended 30 September 2020 to RMB72,573 thousand for the nine months ended 30 September 2021, which was mainly due to the increase in raw materials.

Sales and marketing expense

The Group's sales and marketing expense decreased from RMB209 thousand for the nine months ended 30 September 2020 to RMB143 thousand for the nine months ended 30 September 2021.

General and administrative expense

The Group's general and administrative expense decreased from RMB10,572 thousand for the nine months ended 30 September 2020 to RMB8,594 thousand for the nine months ended 30 September 2021.

Among which, our research and development costs slightly changed from RMB6,140 thousand for the nine months ended 30 September 2020 to RMB7,066 thousand for the nine months ended 30 September 2021, maintaining at a steady level.

Finance costs

The Group's finance costs increased from RMB1,790 thousand for the nine months ended 30 September 2020 to RMB2,968 thousand for the nine months ended 30 September 2021.

Staff costs

The Group's staff costs increased from RMB3,582 thousand for the nine months ended 30 September 2020 to RMB3,761 thousand for the nine months ended 30 September 2021 due to that during the novel coronavirus disease (COVID-19) epidemic of 2020, the local government reduced the social security expenses.

Income tax expenses

The Group's income tax expenses decreased from RMB2,610 thousand for the nine months ended 30 September 2020 to RMB2,362 thousand for the nine months ended 30 September 2021, which was mainly due to Jieyang Hongguang Coated Glass Co., Ltd.* (揭陽市宏光鍍膜玻璃有限公司), our indirect wholly-owned subsidiary, recording a better operating result than last year, and having a higher income tax than last year.

Profit for the period

Due to the above factors, the net profit for the period of the Group was RMB16,064 thousand for the nine months ended 30 September 2021, while there was a net profit of RMB15,724 for the corresponding period in 2020, which was mainly because the revenue slightly increased in 2021 and the relevant listing expenses largely fell.

Human resources and remuneration policies

As at 30 September 2021, the Group employed a total of 65 full-time employees. For the nine months ended 30 September 2021, the Group's staff costs, including contributions to the defined contribution retirement scheme, salaries, wages and other benefits, amounted to approximately RMB3,761 thousand.

Material investments

For the nine months ended 30 September 2021, the Group did not acquire or hold any significant investment (2020: Nil).

Material acquisitions/disposals

For the nine months ended 30 September 2021, the Group did not complete any significant acquisitions/disposals (2020: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Foreign exchange risk

The principal activities of the Group are conducted in China, and the transactions of the Group is primarily denominated in RMB. The Group does not have any foreign currency hedging policies. However, the management monitors our foreign exchange risk and will consider hedging significant foreign currency exposure should the need arise. As at 30 September 2021 and 30 September 2020, the Group does not have any outstanding instruments for hedging purposes.

Principal risks and uncertainties faced by the Company

Principal risks and uncertainties faced by the Company in achieving its business objectives, and the solutions adopted by the Group are as follows:

Impact of local and international regulations

The business operation of the Group is subject to government policies and relevant regulations and guidelines imposed by regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the Group's business operation by the authorities. The Group closely monitors changes in government policies, regulations and the market, and conducts research to assess the impact brought by these changes.

Impact of the novel coronavirus disease (COVID-19) epidemic

Last spring, under the impact of the novel coronavirus disease (COVID-19) epidemic, industries in Mainland China postponed the resumption of work after the Chinese New Year holiday, and operations were only resumed in early March 2020. The impact of the COVID-19 epidemic has, to a certain extent, affected the development of Mainland China's real estate market in the first three quarters of 2020, thus also triggering the slowdown of the development of the architectural glass industry. At the start of this year, the impact of the novel coronavirus disease (COVID-19) epidemic has been eliminated almost and the project schedule and order execution of customers of the Group have returned to normal gradually.

Comparison of business objectives with actual business progress

Since the shares of the Company listed on GEM of the Stock Exchange on 13 January 2020 and up to the date of this report, we are starting to implement our business objectives as set out in the section headed “Statement of Business Objectives and Use of Proceeds” of the prospectus of the Company dated 31 December 2019. The Company intends to apply the unutilised net proceeds at the beginning of year 2022 and expects unutilised net proceeds to be fully utilized on or before 31 December 2022.

Save as disclosed in this report, there are no significant events subsequent to 30 September 2021 which would materially affect the Group’s operating and financial performance as of the date of the financial statements.

Future plans for material investments or capital assets

For the nine months ended 30 September 2021, the Group has not developed any future plan of material investments or capital assets.

On 13 April 2021, the Company entered into the Equity Sale and Purchase Agreement (the “Equity Sale and Purchase Agreement”) with Ming Liang Global Limited (“Ming Liang Global”, the ultimate holding company of the Group), pursuant to which the Company has agreed conditionally to acquire, and Ming Liang Global has agreed conditionally to sell, the 100% of the issued share capital (“Sale Shares”) of a newly incorporated company (“Target Company”) which holds the entire equity interest in Guangdong Longjian Engineering Co., Ltd., at a consideration of HK\$64,200,000 (the “Acquisition”).

Upon completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the consolidated financial statements of the Group.

The Equity Sale and Purchase Agreement and the transactions contemplated thereunder are agreed on normal commercial terms after arm’s length negotiations. The Acquisition is intended to be a downstream expansion of the Group’s business, and the Group would be able to secure stable demand for its glass products, which are widely used in construction service.



MANAGEMENT DISCUSSION AND ANALYSIS

Disclosures under Rules 17.22 to 17.24 of the GEM Listing Rules

As at 30 September 2021, there is no circumstance which would give rise to a disclosure obligation on the part of the Group under Rules 17.22 to 17.24 of the GEM Listing Rules.

Dividend

The Directors did not recommend the payment of any dividend for the nine months ended 30 September 2021 (2020: Nil).

OUTLOOK AND PROSPECTS

The Group was listed on GEM of the Stock Exchange on 13 January 2020 (the “Listing Date”) and the fund raised from the listing laid a solid foundation for the future development of the Group.

The markets and technological advances in relation to coated glass have developed significantly in recent years, driven primarily by a series of building energy conservation policies and standards promulgated by the PRC Government such as the Guidance Opinion on the Development of Glass Industry in the 13th Five-Year Plan* (《玻璃工業“十三五”發展指導意見》) issued by the China Architectural and Industrial Glass Association* (中國建築玻璃與工業玻璃協會). According to HCR Co., Ltd. (北京慧辰資道資訊股份有限公司) (“HCR”), an independent market research firm commissioned by us in preparation for the listing, coated glass production volume in China is expected to increase at a CAGR of about 7.8% from 293 million m² in 2018 to 427 million m² in 2023. Coated glass, our primary energy-efficient safety glass product, is a type of energy-saving glass which is commonly used in the construction industry. We believe our specialisation in coated glass well positions us to capture the opportunities arising from the continual growth of the demand of coated glass in China.

With the strong demand for dimming glass in new buildings, HCR estimates that dimming glass production volume in China is expected to increase at a CAGR of 21.6% from 254,000 m² in 2018 to 675,000 m² in 2023 and there will also be an upward trend of a similar scale in dimming glass sales volume. We further leveraged our cumulative experience and technological know-how in the production of smart glass product. We believe that our business will benefit from increasing market demand for smart glass products in China.

MANAGEMENT DISCUSSION AND ANALYSIS

This spring, under the impact of the novel coronavirus disease (COVID-19) epidemic, industries in Mainland China postponed the resumption of work after the Chinese New Year holiday, and operations were only resumed in early March 2020. The impact of the COVID-19 epidemic has, to a certain extent, affected the development of Mainland China's real estate market in the first quarter of 2020 as well as the second quarter of 2020, thus also triggering the slowdown of the development of the architectural glass industry.

At present, under the orderly guidance of the Mainland Chinese government, the economic situation of Mainland China is seeing improvement and recovery. The Group will endeavor to seek acquisition or investment opportunities to enhance the value of China Hongguang, in order to resist the impact caused by the COVID-19 epidemic, and to enhance the Group's position and its value, and continue to create new growth drivers for the Group.

* For identification purpose only

OTHER INFORMATION

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Model Code"). The Company had made specific enquiries with written guidelines in relation to the Model Code to all Directors and all Directors have confirmed that they complied with the required standards set out in the Model Code during the nine months ended 30 September 2021.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2021, the interests or short positions of the Directors and chief executives in the shares (the "Shares"), underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as follows:

| Name | Nature of interest | Total number of Shares held (L) ⁽¹⁾ | Percentage of shareholding |
|--------------------------------|---------------------------------------------------------|------------------------------------------------|----------------------------|
| Mr. WEI Jiakun ("Mr. Wei") | Settlor of a discretionary trust; Interest of spouse | 150,750,000 (L) ⁽²⁾ | 50.25% |
| Ms. LIN Weishan ("Ms. Lin") | Settlor of a discretionary trust; Interest of spouse | 150,750,000 (L) ⁽²⁾ | 50.25% |

Notes:

1. The letter "L" denotes the entity/person's long position in the Shares.
2. These Shares are held by Ming Liang Global Limited, the entire issued share capital of which is held by Wei Family Limited, which is in turn entirely held by IQ EQ (BVI) Limited, acting as the trustee of The Wei Family Trust. The Wei Family Trust is a discretionary trust established by Mr. Wei, Ms. Lin (the spouse of Mr. Wei) and Ms. LIU Rong ("Ms. Liu", the mother of Mr. Wei) as the settlors and the beneficiaries of The Wei Family Trust include Mr. Wei, Ms. Lin, Ms. Liu and certain family members of Mr. Wei. Each of Mr. Wei, Ms. Lin, Ms. Liu, IQ EQ (BVI) Limited and Wei Family Limited is deemed to be interested in the Shares held by Ming Liang Global Limited by virtue of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and Chief Executives' interests and short positions in Shares, underlying Shares and debentures of the Company or any associated corporation" above, at no time during the nine months ended 30 September 2021 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the Shares or underlying Shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2021, so far as is known to the Directors, the following persons (other than Directors or chief executives of the Company) had or deemed or taken to have interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

| Name | Capacity/nature of interest | Total number of Shares held (L) ⁽¹⁾ | Percentage of shareholding |
|---------------------------|---------------------------------------------------------|------------------------------------------------|----------------------------|
| Ming Liang Global Limited | Beneficial owner | 150,750,000 (L) ⁽²⁾ | 50.25% |
| Wei Family Limited | Interest in a controlled corporation | 150,750,000 (L) ⁽²⁾ | 50.25% |
| IQ EQ (BVI) Limited | Trustee of a trust | 150,750,000 (L) ⁽²⁾ | 50.25% |
| Mr. Wei | Settlor of a discretionary trust; Interest of spouse | 150,750,000 (L) ⁽²⁾ | 50.25% |
| Ms. Lin | Settlor of a discretionary trust; Interest of spouse | 150,750,000 (L) ⁽²⁾ | 50.25% |

OTHER INFORMATION

| Name | Capacity/nature of interest | Total number of Shares held (L) ⁽¹⁾ | Percentage of shareholding |
|-----------------------------------------------|--------------------------------------|------------------------------------------------|----------------------------|
| LIU Rong ("Ms. Liu") | Settlor of a discretionary trust | 150,750,000 (L) ⁽²⁾ | 50.25% |
| Orient Success Ventures Limited | Beneficial owner | 49,500,000 (L) ⁽³⁾ | 16.50% |
| WANG Yaqing | Interest in a controlled corporation | 49,500,000 (L) ⁽³⁾ | 16.50% |
| Power Solution International Holdings Limited | Beneficial owner | 24,750,000 (L) ⁽⁴⁾ | 8.25% |
| LI Wei | Interest in a controlled corporation | 24,750,000 (L) ⁽⁴⁾ | 8.25% |

Notes:

1. The letter "L" denotes the entity/person's long position in the Shares.
2. These Shares are held by Ming Liang Global Limited, the entire issued share capital of which is held by Wei Family Limited, which is in turn entirely held by IQ EQ (BVI) Limited, acting as the trustee of The Wei Family Trust. The Wei Family Trust is a discretionary trust established by Mr. Wei, Ms. Lin (the spouse of Mr. Wei) and Ms. Liu (the mother of Mr. Wei) as the settlors and the beneficiaries of The Wei Family Trust include Mr. Wei, Ms. Lin, Ms. Liu and certain family members of Mr. Wei. Each of Mr. Wei, Ms. Lin, Ms. Liu, IQ EQ (BVI) Limited and Wei Family Limited is deemed to be interested in the Shares held by Ming Liang Global Limited by virtue of the SFO.
3. These Shares are held by Orient Success Ventures Limited, which is beneficially owned by Ms. WANG Yaqing. Ms. WANG Yaqing is deemed to be interested in these Shares by virtue of the SFO.
4. These Shares are held by Power Solution International Holdings Limited, which is beneficially owned by Mr. LI Wei as to 50%, and the other two individuals as to 25% and 25%, respectively. Mr. LI Wei is deemed to be interested in these Shares by virtue of the SFO.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group are set out in note 14 to the unaudited condensed consolidated results of the interim report. Such related party transactions do not fall under the definition of connected transaction or continuing connected transaction under Chapter 20 of the GEM Listing Rules.

DIRECTORS' INTEREST IN COMPETING BUSINESS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders of the Company nor any of their respective close associates that competes or may compete, directly or indirectly, with the businesses of the Group and any other conflicts of interest which any such person has or may have with the Group during the nine months ended 30 September 2021 that pursuant to Rule 11.04 of the GEM Listing Rules.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On 13 April 2021, the Company entered into the Equity Sale and Purchase Agreement (the "Equity Sale and Purchase Agreement") with Ming Liang Global Limited ("Ming Liang Global", the ultimate holding company of the Group), pursuant to which the Company has agreed conditionally to acquire, and Ming Liang Global has agreed conditionally to sell, the 100% of the issued share capital ("Sale Shares") of a newly incorporated company ("Target Company") which holds the entire equity interest in Guangdong Longjian Engineering Co., Ltd., at a consideration of HK\$64,200,000 (the "Acquisition"). The consideration of HK\$64,200,000 for the acquisition of the Sale Shares shall be settled by way of (i) issue and allotment of 99,000,000 new shares ("Consideration Shares") at an issue price of HK\$0.32 per Consideration Share, such that the total value of the Consideration Shares will be HK\$31,680,000, and (ii) issuance of the zero coupon convertible bond(s) in the principal amount of HK\$32,520,000.

Pursuant to the Equity Sale and Purchase Agreement, Ming Liang Global has covenanted and guaranteed to the Company that the audited consolidated net profit after taxation (excluding extraordinary or exceptional items) of the Target Company and its subsidiaries (the "Target Group") shall not be less than RMB9,100,000 for each of the two financial years ending 31 December 2022.



OTHER INFORMATION

If the aggregate audited net profit after taxation (excluding extraordinary or exceptional items) for the two financial years ending 31 December 2022 (the “Aggregate Profit”) is less than RMB18,200,000, Ming Liang Global shall compensate the Company in cash an amount equivalent to the difference between RMB18,200,000 and the Aggregate Profit on or before 30 September 2023 or any other date agreed by the parties.

Upon completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the consolidated financial statements of the Group.

The Equity Sale and Purchase Agreement and the transactions contemplated thereunder are agreed on normal commercial terms after arm’s length negotiations. The Acquisition is intended to be a downstream expansion of the Group’s business, and the Group would be able to secure stable demand for its glass products, which are widely used in construction service.

The transactions contemplated under the Equity Sale and Purchase Agreement constitutes a major and connected transaction of the Company under the GEM Listing Rules. A circular is expected to be despatched to the shareholders as soon as possible and in any event, no later than 30 November 2021.

PURCHASE, SALE OR REDEMPTION OF COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the nine months ended 30 September 2021.

SHARE OPTION SCHEME

The Company did not have share option scheme as at 30 September 2021.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to promoting high standards of corporate governance through its continuous effort in improving its corporate governance practices and process. The Board believes that sound and reasonable corporate governance practices are essential for sustainable growth of the Group and for safeguarding the interests and the assets of the Group.

The shares of the Company were listed on GEM of the Stock Exchange on 13 January 2020. The Company has adopted the Corporate Governance Code (the “CG Code”) contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. The Directors consider that throughout the nine months ended 30 September 2021, the Company has applied the principles and complied with all applicable code provisions set out in the CG Code.

AUDIT COMMITTEE

The Group’s unaudited condensed consolidated financial statements for the nine months ended 30 September 2021 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2021 have been prepared in compliance with the applicable accounting standards and the GEM Listing Rules and that adequate disclosures have been made.

DIVIDEND

The Board did not recommend the payment of interim dividend for the nine months ended 30 September 2021.



OTHER INFORMATION

INTERESTS OF COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Dongxing Securities (Hong Kong) Company Limited, neither Dongxing Securities (Hong Kong) Company Limited nor any of its directors or employees or close associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules except for the compliance adviser service provided by Dongxing Securities (Hong Kong) Company Limited as at the date of this report.

By Order of the Board

LIN Weishan

Chairwoman and Executive Director

Hong Kong, 12 November 2021

As at the date of this report, the Executive Directors are Mr. WEI Jiakun, Ms. LIN Weishan, Mr. CHEN Biming and Ms. LI Wanna; and the Independent Non-Executive Directors are Ms. CHEN Xiuyan, Mr. JIA Xiaogang and Mr. WU Yong.