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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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

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Given that the companies listed on the GEM are generally small and mid-sized companies, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.

*This announcement, for which the directors (the “**Directors**”) of HongGuang Lighting Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2018

Comparing to the corresponding six months ended 30 June 2017

- Based on the unaudited condensed consolidated results of the Group for the six months ended 30 June 2018 (the “**Period**”), the Group’s revenue for the Period increased to approximately RMB62.4 million, representing an increase of approximately 18.2% as compared to approximately RMB52.8 million for the six months ended 30 June 2017 (the “**Previous Period**”).
- During the Period, the Group’s gross profit increased to approximately RMB13.6 million, representing an increase of approximately 19.3% as compared to approximately RMB11.4 million for the Previous Period.
- During the Period, the Group’s net profit decreased to approximately RMB5.1 million, representing a decrease of approximately 39.3% as compared to approximately RMB8.4 million for the Previous Period.
- Earnings per share for the six months ended 30 June 2018 decreased by approximately 39.5% to approximately RMB cents 1.27 (six months ended 30 June 2017: approximately RMB cents 2.10).

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

For the six months ended 30 June 2018

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 2018 (the “**Period**”), together with the comparative unaudited figures for the corresponding period in 2017 (the “**Previous Period**”), as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Three months ended 30 June		Six months ended 30 June	
		2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	4	34,726	26,276	62,357	52,786
Cost of sales		<u>(27,030)</u>	<u>(20,874)</u>	<u>(48,715)</u>	<u>(41,403)</u>
Gross profit		7,696	5,402	13,642	11,383
Other income and gains	4	22	117	23	1,984
Selling and distribution expenses		(234)	(437)	(483)	(620)
Administrative and other expenses		(4,312)	(2,285)	(6,662)	(5,503)
Finance costs		<u>—</u>	<u>(12)</u>	<u>—</u>	<u>(143)</u>
Profit before income tax expense		3,172	2,785	6,520	7,101
Income tax (expense)/credit	5	<u>(740)</u>	<u>2,233</u>	<u>(1,447)</u>	<u>1,292</u>
Profit for the period attributable to owners of the Company		<u>2,432</u>	<u>5,018</u>	<u>5,073</u>	<u>8,393</u>
Other comprehensive income					
Item that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations		<u>803</u>	<u>(1,237)</u>	<u>79</u>	<u>(1,040)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>3,235</u>	<u>3,781</u>	<u>5,152</u>	<u>7,353</u>
Earnings per share attributable to owners of the Company					
— Basic and diluted (RMB cents)	7	<u>0.61</u>	<u>1.25</u>	<u>1.27</u>	<u>2.10</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 JUNE 2018

	<i>Notes</i>	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		16,554	17,739
Intangible assets		2,603	2,944
Deferred tax assets		797	797
		19,954	21,480
Current assets			
Inventories		18,337	16,058
Trade and bills receivables	8	87,837	87,111
Prepayments and other receivables	9	4,725	4,427
Restricted bank balance	11	819	—
Cash and cash equivalents	11	16,556	15,815
		128,274	123,411
Current liabilities			
Trade payables	10	11,070	10,956
Other payables and accruals		6,000	7,664
Current tax liabilities		381	646
		17,451	19,266
Net current assets		110,823	104,145
Net assets		130,777	125,625
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,580	3,580
Reserves		127,197	122,045
Total equity		130,777	125,625

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 JUNE 2018

	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 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)	<u>3,580</u>	<u>46,162</u>	<u>8,239</u>	<u>580</u>	<u>35,972</u>	<u>(5,428)</u>	<u>41,672</u>	<u>130,777</u>
At 1 January 2017 (audited)	3,580	46,162	5,345	580	35,972	(3,730)	26,660	114,569
Profit for the period	—	—	—	—	—	—	8,393	8,393
Exchange differences on translating foreign operations	—	—	—	—	—	(1,040)	—	(1,040)
Total comprehensive income for the period	—	—	—	—	—	(1,040)	8,393	7,353
Transfer to statutory reserve	—	—	1,209	—	—	—	(1,209)	—
At 30 June 2017 (unaudited)	<u>3,580</u>	<u>46,162</u>	<u>6,554</u>	<u>580</u>	<u>35,972</u>	<u>(4,770)</u>	<u>33,844</u>	<u>121,922</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from operating activities		
Profit before income tax	6,520	7,101
Adjustments for:		
Depreciation of property, plant and equipment	1,621	1,328
Amortisation of intangible assets	341	341
Interest income	(1)	(9)
Finance costs	—	143
Exchange (gains) and losses, net	(84)	81
Reversal of impairment loss on trade receivables	(66)	—
	<u>8,331</u>	<u>8,985</u>
Operating profit before working capital changes	8,331	8,985
Increase in inventories	(2,279)	(2,322)
(Increase)/decrease in trade and bills receivables	(660)	13,099
(Increase)/decrease in prepayments and other receivables	(306)	8,258
Decrease in trade and other payables	(708)	(30,243)
	<u>4,378</u>	<u>(2,223)</u>
Cash generated from/(used in) operations	4,378	(2,223)
Income tax paid	(1,712)	(1,229)
	<u>2,666</u>	<u>(3,452)</u>
Net cash flows generated from/(used in) operating activities	2,666	(3,452)
Cash flows from investing activities		
Purchases of property, plant and equipment	(436)	(2,215)
Increase in restricted bank balance	(819)	—
Interest received	1	9
	<u>1</u>	<u>9</u>
Net cash flows used in investing activities	(1,254)	(2,206)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from financing activities		
Repayment to a director	(844)	—
Interest paid	—	(143)
Repayment of bank borrowings	—	(14,700)
Gross proceeds from placing	—	54,684
Payment of listing expenses in relation to the placing	—	(10,381)
	<u>(844)</u>	<u>29,460</u>
Net cash flows (used in)/generated from financing activities		
	568	23,802
Effect of exchange rate changes on cash and cash equivalents	173	(4)
Cash and cash equivalents at the beginning of period	<u>15,815</u>	<u>577</u>
Cash and cash equivalents at the end of period	<u><u>16,556</u></u>	<u><u>24,375</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 2018 are consistent with those adopted by the Group in its audited consolidated financial statements for the year ended 31 December 2017 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. This is the first set of the Group’s financial statements in which HKFRS 9 and HKFRS 15 have been adopted. 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.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared on the historical cost basis. The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 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

(a) HKFRS 9 “Financial Instruments”

In the Period, the Group has adopted HKFRS 9 “Financial Instruments”. HKFRS 9 is effective for the accounting periods beginning on or after 1 January 2018. The Group applied the transition provisions set out in HKFRS 9 to adjust the retained profits or other reserves as at 1 January 2018, without restating comparative information retrospectively by applying the classification and measurement requirements (including impairment) to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The principal effects resulting from the application of HKFRS 9 on the Group’s assets or liabilities are summarised below:

Classification and measurement of financial assets and financial liabilities

HKFRS 9 “Financial Instruments” introduces a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, and the new requirements on the accounting for financial liabilities that are designated at fair value through profit or loss.

Impairment of financial assets

HKFRS 9 replaces the “incurred loss” impairment model in HKAS 39 with a forward-looking “expected credit loss” model. The Group applies simplified approach to recognise lifetime expected losses for all trade and bills receivables. The credit losses calculated pursuant to the new requirements are not significantly different from the amount recognised under the current practices. Therefore, the Group considered no adjustment is necessary.

(b) HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 “Revenue from Contracts with Customers” establishes a five-steps model in accounting for revenue arising from contracts with customers which are recognised when a performance obligation is satisfied. It replaces existing revenue recognition guidance, including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations.

The Group has elected to adopt HKFRS 15 using the modified retrospective approach, with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated. The application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognition of the Group. Therefore, the Group considered no adjustment is necessary.

3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The following table illustrates the classification of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

Analysis of financial assets items

	Original classification under HKAS 39	Original carrying amount under HKAS 39 RMB'000	New classification under HKFRS 9	New carrying amount under HKFRS 9 RMB'000
Financial assets				
Cash and cash equivalents	Loans and receivables	15,815	Financial assets at amortised cost	15,815
Trade and bills receivables	Loans and receivables	87,111	Financial assets at amortised cost	87,111
		102,926		102,926
Total financial assets		102,926		102,926

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, less discounts, returns, value added tax and other applicable local taxes during the reporting period.

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
Sales of LED beads	61,388	51,994
Sales of LED lighting products	969	792
	62,357	52,786
Other income and gains		
Bank interest income	1	9
Government grants	—	1,891
Others	22	84
	23	1,984

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 2018 and 2017.

In 2017, the Group’s wholly-owned subsidiary, Zhuhai HongGuang Lighting Fixture Company Limited* (“**Zhuhai HongGuang**”) (珠海宏光照明器材有限公司) was awarded a ‘New and High Technology Enterprise Certificate’ (高新技術企業證書). As a result, Zhuhai HongGuang is entitled to a tax preference with a reduction of the enterprise income tax (the “EIT”) rate from 25% to 15% for the period from 1 January 2016 to 31 December 2018.

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 2018 and 2017.

6. DIVIDEND

No dividend has been paid or declared by the Company for the six months ended 30 June 2018 (2017: Nil), or by any of the companies now comprising the Group during the reporting period.

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 RMB5,073,000 (2017: RMB8,393,000), and the weighted average number of ordinary shares of 400,000,000 issued during the six months ended 30 June 2018 and 2017.

The Company did not have any potential dilutive shares for the six months ended 30 June 2018 and 2017. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

8. TRADE AND BILLS RECEIVABLES

	As at 30 June 2018 <i>RMB’000</i> (unaudited)	As at 31 December 2017 <i>RMB’000</i> (audited)
Trade receivables	86,792	85,378
Bills receivables	<u>1,045</u>	<u>1,733</u>
	<u>87,837</u>	<u>87,111</u>

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

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
0 to 30 days	11,810	21,328
31 to 60 days	11,014	15,774
61 to 90 days	11,600	11,984
91 to 120 days	13,887	7,264
121 to 365 days	38,929	30,114
Over 1 year	3,750	3,866
	90,990	90,330
Less: Impairment of trade and bills receivables	(3,153)	(3,219)
	<u>87,837</u>	<u>87,111</u>

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

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Past due for less than 30 days	20,183	10,165
Past due for more than 30 days but less than 60 days	5,338	10,010
Past due for more than 60 days but less than 90 days	4,614	8,389
Past due for more than 90 days but less than 120 days	15,267	2,983
Past due for more than 120 days	17,037	12,660
	<u>62,439</u>	<u>44,207</u>

9. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2018 <i>RMB'000</i> (unaudited)	As at 31 December 2017 <i>RMB'000</i> (audited)
Other receivables	48	51
Prepayments	<u>4,677</u>	<u>4,376</u>
	<u>4,725</u>	<u>4,427</u>

10. TRADE PAYABLES

	As at 30 June 2018 <i>RMB'000</i> (unaudited)	As at 31 December 2017 <i>RMB'000</i> (audited)
Trade payables	<u>11,070</u>	<u>10,956</u>

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

	As at 30 June 2018 <i>RMB'000</i> (unaudited)	As at 31 December 2017 <i>RMB'000</i> (audited)
0 to 30 days	1,488	3,132
31 to 60 days	1,640	2,381
61 to 90 days	2,569	1,128
91 to 120 days	2,031	1,297
121 to 365 days	1,214	538
Over 1 year	<u>2,128</u>	<u>2,480</u>
	<u>11,070</u>	<u>10,956</u>

11. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCE

	As at 30 June 2018 <i>RMB'000</i> (unaudited)	As at 31 December 2017 <i>RMB'000</i> (audited)
Cash and bank balances	17,375	15,815
Less: restricted bank balance (<i>Note</i>)	<u>(819)</u>	<u>—</u>
Cash and cash equivalents	<u>16,556</u>	<u>15,815</u>
Denominated in RMB	5,786	2,720
Denominated in HK\$	<u>11,589</u>	<u>13,095</u>

Note: As at 30 June 2018, restricted bank balance consists of deposit of RMB819,000 (2017: Nil) pledged to a bank for the issuance of bills.

12. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2018, 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	
		2018 <i>RMB'000</i> (unaudited)	2017 <i>RMB'000</i> (unaudited)
珠海經濟區利佳電子發展有限公司	Utility expense	791	862
珠海經濟區利佳電子發展有限公司	Rental expense	<u>167</u>	<u>167</u>
		<u>958</u>	<u>1,029</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Activities

The Group is principally engaged in the design, development, manufacturing and sales of LED beads and LED lighting products in the 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 RMB52.8 million for the six months ended 30 June 2017 to approximately RMB62.4 million for the six months ended 30 June 2018.

Profit for the Period amounted to approximately RMB5.1 million (approximately RMB8.4 million for the six months ended 30 June 2017), which represents a decrease of approximately RMB3.3 million or approximately 39.3% as compared to the corresponding period in 2017. Such decrease is mainly due to the absence of (i) government grants and (ii) income tax credit during the Period. Government grants amounted to approximately RMB1.9 million and income tax credit amounted to approximately RMB2.6 million in the Previous Period.

The Group recognises the importance of research and development and continuously devotes resources in enhancing the Group's production process and products. The Group applies for the registration of a number of patents in the PRC in the third quarter of 2018. Furthermore, the Group plans to increase its research capacity by commissioning a top-tier university in the Guangdong Province to conduct research projects on the Group's behalf. The appointment is expected to commence in the third quarter of 2018.

Financial Review

Revenue

For the six months ended 30 June 2018, total revenue was approximately RMB62.4 million, representing an increase of approximately 18.2% as compared with the Previous Period (2017: approximately RMB52.8 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			
	2018		2017	
	RMB'000	%	RMB'000	%
	(unaudited)		(unaudited)	
LED beads	61,388	98.4	51,994	98.5
LED lighting products	969	1.6	792	1.5
Total	<u>62,357</u>	<u>100.0</u>	<u>52,786</u>	<u>100.0</u>

For the six months ended 30 June 2018, revenue from LED beads amounted to approximately RMB61.4 million (2017: approximately RMB52.0 million), accounting for approximately 98.4% of the total revenue (2017: approximately 98.5%). The increase in revenue was mainly due to an increase in sales volume during the Period.

Revenue from LED lighting products during the Period amounted to approximately RMB1.0 million (2017: approximately RMB0.8 million), representing approximately 1.6% of the total revenue (2017: approximately 1.5%).

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 17.6% from approximately RMB41.4 million for the six months ended 30 June 2017 to approximately RMB48.7 million for the six months ended 30 June 2018, reflecting an increase in the sales volume of the LED beads and LED lighting products, which mainly led to the increase in the cost of material used.

Gross Profit and Gross Profit Margin

The gross profit increased from approximately RMB11.4 million for the six months ended 30 June 2017 to approximately RMB13.6 million for the six months ended 30 June 2018. The gross profit margin remained relatively stable at approximately 21.9% for the six months ended 30 June 2018, compared to approximately 21.6% for the six months ended 30 June 2017. 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 2018		Six months ended 30 June 2017	
	Gross profit RMB'000 (unaudited)	Gross profit margin %	Gross profit RMB'000 (unaudited)	Gross profit margin %
LED beads	13,239	21.6	10,954	21.1
LED lighting products	403	41.6	429	54.2
Total gross profit/gross profit margin	<u>13,642</u>	<u>21.9</u>	<u>11,383</u>	<u>21.6</u>

The gross profit margin of LED beads remained relatively stable during the six months ended 30 June 2018 and 30 June 2017. The gross profit margin of LED lighting products experienced a decline from approximately 54.2% for the six months ended 30 June 2017, to approximately 41.6% for the six months ended 30 June 2018. Such decrease was mainly due to the higher proportion of sales of LED lighting products with lower profit margin during the Period, as compared to the Previous Period.

Other Income and Gains

Other income and gains of the Group decreased by approximately 98.9% from approximately RMB2.0 million for the six months ended 30 June 2017 to approximately RMB23,000 for the six months ended 30 June 2018, which was mainly due to the absence of government grants to the Company during the Period. For the six months ended 30 June 2017, the Group's wholly-owned subsidiary, Zhuhai HongGuang Lighting Fixture Company Limited* (珠海宏光照明器材有限公司) (“**Zhuhai HongGuang**”), received government grants of approximately RMB1.9 million, upon being recognised as a “New and High Technology Enterprise” (高新技術企業).

Selling and Distribution Expenses

The selling and distribution expenses decreased by approximately 16.7% from RMB0.6 million for the six months ended 30 June 2017 to approximately RMB0.5 million for the six months ended 30 June 2018. The decrease in selling and distribution expenses was mainly attributable to the decrease in traveling expenses.

Administrative and Other Expenses

The Group's administrative and other expenses increased by approximately 21.8% from approximately RMB5.5 million for the six months ended 30 June 2017 to approximately RMB6.7 million for the six months ended 30 June 2018. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The increase in administrative and other expenses was mainly due to the increase in research and development costs during the Period.

Finance Costs

The Group's finance costs decreased by 100% from RMB0.1 million for the six months ended 30 June 2017 to nil for the six months ended 30 June 2018. Such decrease was mainly due to the full repayment of the Group's bank borrowings in 2017.

Income Tax Expense/Credit

Income tax expense of the Group for the Period was approximately RMB1.4 million (2017: Income tax credit of approximately RMB1.3 million). The increase in income tax expense was primarily attributable to the absence of income tax credit during the Period. An income tax credit of approximately RMB2.6 million was recognised during the Previous Period, in relation to the enterprise income tax reduction amount for the year 2016.

Profit for the Period

The profit for the Period decreased by approximately RMB3.3 million or approximately 39.3% from approximately RMB8.4 million for the six months ended 30 June 2017 to approximately RMB5.1 million for the six months ended 30 June 2018. The decrease in profit for the Period was mainly attributable to the absence of (i) government grants and (ii) income tax credit during the Period. Government grants amounted to approximately RMB1.9 million and income tax credit amounted to approximately RMB2.6 million in the Previous Period.

Net Profit Margin

The net profit margin was approximately 8.2% for the six months ended 30 June 2018, compared to that of approximately 16.0% for the six months ended 30 June 2017. The decrease was mainly due to the absence of (i) government grants and (ii) income tax credit during the Period.

Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: nil), in order to cope with the future business development of the Group.

Comparison between Business Objectives with Actual Business Progress

The following is a comparison of the Group's business strategies as set out in the Company's prospectus dated 16 December 2016 (the "**Prospectus**") with actual business progress up to 30 June 2018:

Business strategies up to 30 June 2018 as set out in the Prospectus

Actual business progress up to 30 June 2018

- | | |
|---|--|
| — Expanding the production capacity | The Group has purchased 24 additional machineries for LED bead encapsulation. |
| — Developing the Group's sales channels | The Group has recruited five sales and marketing staff and in the process of exploring PRC and overseas markets. |
| — Reduction of the gearing ratio | The Group has fully repaid all bank loans in 2017 and successfully reduced the gearing ratio. |

One of the key risks and uncertainties facing the Group is technological risk. In order to improve the Group's capability to meet the customers' requirements, we continuously devote resources to conduct research and development in enhancing the production process and products.

As at 30 June 2018, the Group is the registered proprietor of 17 patents in the PRC. The Group applies for the registration of a number of patents in the PRC in the third quarter of 2018. Furthermore, the Group plans to increase its research capacity by commissioning a top-tier university in the Guangdong Province to conduct research projects on the Group's behalf. The appointment is expected to commence in the third quarter of 2018.

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 2018, the Group’s planned application and actual utilisation of the net proceeds is set out below:

Use of proceeds	Net proceeds <i>HK\$ million</i>	Utilised <i>HK\$ million</i>	Unutilised <i>HK\$ million</i>
Expansion of the Group’s production capacity	21.7	7.9	13.8
Developing the Group’s sales channels	0.8	0.2	0.6
Repayment of bank loans	11.4	11.4	—
General working capital of the Group	<u>3.5</u>	<u>3.5</u>	<u>—</u>
	<u>37.4</u>	<u>23.0</u>	<u>14.4</u>

Liquidity, Financial Resources and Capital Structure

For the six months ended 30 June 2018, the Group recorded net cash generated from operating activities of approximately RMB2.7 million as compared to net cash used in operating activities of approximately RMB3.5 million for the six months ended 30 June 2017, primarily due to the smaller decrease in trade payables and other payables during the six months ended 30 June 2018, as compared to the greater decrease in trade payables and other payables in the corresponding period in 2017.

As at 30 June 2018, the Group had net current assets of approximately RMB110.8 million (31 December 2017: approximately RMB104.1 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 2018 was approximately 7.4 (31 December 2017: approximately 6.4). The increase was primarily due to the increase in (i) cash and cash equivalents and (ii) inventories during the six months ended 30 June 2018.

As at 30 June 2018, the Group had total cash and bank balances of approximately RMB16.6 million (31 December 2017: approximately RMB15.8 million). The increase in total cash and bank balances was mainly due to the net cash flows generated from the operating activities at the amount of approximately RMB2.7 million.

As at 30 June 2018, the total available banking facilities of the Group were nil (31 December 2017: nil). The total borrowing drawn down from the banking facilities as at 30 June 2018 was nil (31 December 2017: 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 material change in the capital structure of the Group. The capital of the Company comprises only ordinary shares. As at 30 June 2018, the equity attributable to owners of the Company amounted to approximately RMB130.8 million (31 December 2017: approximately RMB125.6 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 2018 was nil (31 December 2017: 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 2018, the interests and short positions of the Directors and chief executive of the Company in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the ordinary shares of the Company

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

Notes:

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

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

As at 30 June 2018, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

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

Notes:

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

Share Option Scheme

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

Exempted Continuing Connected Transaction

During the six months ended 30 June 2018, 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 12 to the condensed consolidated financial statements of this announcement.

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

Significant Investments

As at 30 June 2018, there was no significant investment held by the Group.

Material Acquisitions and Disposals

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

Operating Lease Commitments

The Group leased one property in the PRC from a related party as use for office and factory during the six months ended 30 June 2018. As at 30 June 2018, the Group’s operating lease commitments amounted to approximately RMB2.6 million (31 December 2017: approximately RMB2.8 million).

Capital Commitments

As at 30 June 2018, the Group has capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to RMB38,000 (31 December 2017: Nil).

Contingent Liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

The Group’s main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group’s exposure to foreign exchange risk is insignificant. During the six months ended 30 June 2018, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 30 June 2018, the Group employed 118 employees (31 December 2017: 111 employees). Employee costs (including Directors’ remuneration, wages, salaries and other benefits and contribution to defined contribution pension plans) amounted to approximately RMB3.7 million for the six months ended 30 June 2018 (2017: 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 2018.

Corporate Governance and Compliance with the Corporate Governance Code

The Company adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for the provision A.2.1 of the CG Code, the Board is satisfied that the Company had complied with the CG Code during the six months ended 30 June 2018.

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

Mr. Chan Chung Kik, Lewis has resigned as an independent non-executive director of Shandong Xinhua Pharmaceutical Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 719) and the Shenzhen Stock Exchange (Stock Code: 000756), with effect from 29 June 2018.

Save as disclosed above, there is no change in the information of each Director that is required to be disclosed under Rules 17.50A(1) of the GEM Listing Rules, since the publication of annual report for the year ended 31 December 2017.

Interests of the Compliance Adviser and its Directors, Employees and Associates

As notified by the Company's compliance adviser, Lego Corporate Finance Limited (the "**Compliance Adviser**"), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 30 June 2018 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Audit Committee and Review of Accounts

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

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

Hong Kong, 7 August 2018

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

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk and on the "Latest Company Announcements" page for at least seven days from the date of its posting. This announcement will also be published on the Company's website at www.lighting-hg.com.

* *For identification purpose only*