



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

THIRD QUARTERLY REPORT

2019

Characteristics of the GEM of the Stock Exchange of Hong Kong Limited (The “Stock Exchange”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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.

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

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CORPORATE INFORMATION

Directors

Executive Directors

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

Non-executive Director

Mr. CHIU Kwai San (趙桂生)

Independent Non-executive Directors

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Compliance Officer

Mr. CHAN Wing Kin (陳永健)

Company Secretary

Mr. CHAN Wing Kin (陳永健)

Authorised Representatives

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

Registered Office

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

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

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

CORPORATE INFORMATION (CONTINUED)

Place of Business in Hong Kong

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Registrar and Transfer Office

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

Principal Banker

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

Compliance Adviser

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

Legal Adviser

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

Auditor

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

Stock Code

8343

Company's Website

www.lighting-hg.com

UNAUDITED CONDENSED CONSOLIDATED THIRD QUARTERLY RESULTS

For the nine months ended 30 September 2019

The board of directors (the “**Board**”) of the Company announces the unaudited condensed consolidated third quarterly results of the Group for the nine months ended 30 September 2019 (the “**Period**”), together with the comparative unaudited figures for the corresponding period in 2018 (the “**Previous Period**”), as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2019

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Revenue	3	80,456	70,530	170,118	132,887
Cost of sales		(60,841)	(54,525)	(129,245)	(103,240)
Gross profit		19,615	16,005	40,873	29,647
Other income and gains	3	226	457	776	480
Selling and distribution expenses		(645)	(304)	(1,282)	(787)
Administrative and other expenses		(6,703)	(6,496)	(22,253)	(13,158)
Provision on expected credit loss on trade and bills receivables		—	—	(162)	—
Finance costs	4	(128)	—	(296)	—
Profit before income tax expense		12,365	9,662	17,656	16,182
Income tax expense	5	(2,111)	(1,434)	(4,113)	(2,881)
Profit for the period attributable to owners of the Company		10,254	8,228	13,543	13,301
Other comprehensive income Item that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations		363	614	272	693
Total comprehensive income for the period attributable to owners of the Company		10,617	8,842	13,815	13,994
Earnings per share attributable to owners of the Company					
— Basic and diluted (RMB cents)	7	2.56	2.06	3.39	3.33

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2019

	Share capital	Share premium	Statutory reserve	Other reserve	Capital reserve	Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019 (audited) (Note)	3,580	46,162	10,480	580	35,972	(4,818)	58,254	150,210
Profit for the period	—	—	—	—	—	—	13,543	13,543
Exchange differences on translating foreign operations	—	—	—	—	—	272	—	272
Total comprehensive income for the period	—	—	—	—	—	272	13,543	13,815
Transfer to statutory reserve	—	—	2,331	—	—	—	(2,331)	—
At 30 September 2019 (unaudited)	3,580	46,162	12,811	580	35,972	(4,546)	69,466	164,025
At 1 January 2018 (audited)	3,580	46,162	7,419	580	35,972	(5,507)	37,419	125,625
Profit for the period	—	—	—	—	—	—	13,301	13,301
Exchange differences on translating foreign operations	—	—	—	—	—	693	—	693
Total comprehensive income for the period	—	—	—	—	—	693	13,301	13,994
Transfer to statutory reserve	—	—	1,781	—	—	—	(1,781)	—
At 30 September 2018 (unaudited)	3,580	46,162	9,200	580	35,972	(4,814)	48,939	139,619

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

1. General Information, Basis of Preparation and Accounting Policies

HongGuang Lighting Holdings Company Limited (the “**Company**”) was incorporated with limited liability in the Cayman Islands on 27 May 2015. Its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 30 December 2016 with stock code “8343”.

The address of the Company’s registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company and its subsidiaries (collectively referred to as the “**Group**”) is located in the People’s Republic of China (the “**PRC**”) at the North Side, 2nd Floor, No. 8 Pinggong Er Road, Nanping Technology Industrial Park, Zhuhai, the PRC.

The Company’s principal activity is investment holding. The Group is principally engaged in the design, development, manufacture and sales of light-emitting diode (“**LED**”) beads and LED lighting products in the PRC.

The unaudited condensed consolidated financial statements for the nine months ended 30 September 2019 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure provisions of Chapter 18 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 nine months ended 30 September 2019 are consistent with those adopted by the Group in its audited consolidated financial statements for the year ended 31 December 2018 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the “**New and Revised HKFRSs**”) (which include all HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the HKICPA that are adopted for the first time for the current periods financial statements. This is the first set of the Group’s financial statements in which HKFRS 16 has been adopted. Details of any changes of accounting policies are set out in note 2.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2019

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

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

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

2. Changes of accounting policies

HKFRS 16 — Leases

HKFRS 16 superseded HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2019

2. Changes of accounting policies (Continued)

HKFRS 16 — Leases (Continued)

The Group has transitioned to HKFRS 16 in accordance with the modified retrospective approach and, therefore, the information presented for 2018 has not been restated. The right-of-use asset for property lease was measured at the amount equal to the lease liability, adjusted by the amount of any prepayments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

On adoption of HKFRS 16, the Group recognised lease liability in relation to lease which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. This liability was measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate. Lease payments include the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The associated right-of-use asset was measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position. Each lease payment is allocated between the principal repayment of lease liability and finance cost. The finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

The Group anticipates that, except as described abovementioned, the application of other new amendments to standards and interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2019

3. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, less discounts, returns, value added tax and other applicable local taxes during the reporting period. The Group has performance obligations which is sales of LED beads & LED lighting products, and subcontracting services for LED beads.

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

	Nine months ended	
	30 September	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue recognised at a particular point in time		
Sales of LED beads	162,836	130,618
Sales of LED lighting products	6,257	2,269
Subcontracting income for LED beads	1,025	—
	170,118	132,887
Other income and gains		
Bank interest income	610	37
Others	166	443
	776	480

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2019

4. Finance Costs

	Nine months ended 30 September	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Interest on bank borrowings repayable within five years	216	—
Interest expense on lease liabilities	80	—
	296	—

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 nine months ended 30 September 2019 and 2018.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2019

5. Income Tax Expense (Continued)

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

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

6. Dividend

No dividend has been paid or declared by the Company for the nine months ended 30 September 2019 (2018: 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 RMB13,543,000 (2018: RMB13,301,000), and the weighted average number of ordinary shares of 400,000,000 issued during the nine months ended 30 September 2019 and 2018.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2019

8. Related Party Transactions

During the nine months ended 30 September 2019, the Group entered into certain transactions with “related parties” as defined under the applicable accounting standards and the details of the material related party transactions (the “**Transactions**”) are disclosed as follows:

Name of related party	Nature of transactions	Nine months ended	
		30 September	2018
		2019	2018
		RMB'000	RMB'000
		(unaudited)	(unaudited)
珠海經濟區利佳電子發展有限公司	Utility expense	1,819	1,365
珠海經濟區利佳電子發展有限公司	Rental expense	278	292
		2,097	1,657

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 RMB132.9 million for the nine months ended 30 September 2018 to approximately RMB170.1 million for the nine months ended 30 September 2019. The demand for slim LED beads continued its strong momentum during the nine months ended 30 September 2019, which contributed approximately RMB57.5 million to the Group's revenue for the Period, as compared to approximately RMB25.4 million for the Previous Period. Since July 2019, the Group has commenced its commercial production of LED beads under a subcontracting arrangement with a well known manufacturer of electronic goods and components headquartered in South Korea. The revenue derived from the subcontracting arrangement was approximately RMB1.0 million for the nine months ended 30 September 2019 (2018: nil).

Profit for the Period amounted to approximately RMB13.5 million (approximately RMB13.3 million for the nine months ended 30 September 2018), which represents an increase of approximately RMB0.2 million or approximately 1.5% as compared to the corresponding period in 2018. The relatively slight increase in profit was mainly due to the increase in administrative and other expenses for the nine months ended 30 September 2019 as compared to the corresponding period in 2018, mainly attributable to (i) the increase in research and development expenses; and (ii) the increase in the professional services expenses in relation to the preparation of the transfer of listing of the Company's shares from the GEM to the Main Board of the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

On 6 May 2019, the Company submitted a formal application to the Stock Exchange for a proposed transfer of listing from the GEM to the Main Board of the Stock Exchange. On 1 November 2019, approval-in-principle has been granted by the Stock Exchange for the shares of the Company to be listed on the Main Board and de-listed from the GEM. The Directors believe that the transfer of listing will enhance the profile of the Group and the attractiveness of the shares of the Company to both institutional and retail investors and lead to greater trading liquidity of the shares of the Company. The Directors also consider that the transfer of listing will strengthen the Group's position in the industry and enhance the Group's competitive strengths in retaining and attracting professional staff and customers. Therefore, the Directors are of the view that the transfer of listing will be beneficial to the Group's future growth as well as business development which will create a long-term value to the shareholders of the Company.

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

During the nine months ended 30 September 2019, registration of 9 patents were further granted to Zhuhai HongGuang. As at 30 September 2019, the Group is the registered proprietor of 27 patents in the PRC.

Financial Review

Revenue

For the nine months ended 30 September 2019, total revenue was approximately RMB170.1 million, representing an increase of approximately 28.0% as compared with the Previous Period (2018: approximately RMB132.9 million). The increase was mainly attributable to the increase in revenue from the sales of both LED beads and LED lighting products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	Nine months ended 30 September			
	2019		2018	
	RMB'000 (unaudited)	%	RMB'000 (unaudited)	%
LED beads	162,836	95.7	130,618	98.3
LED lighting products	6,257	3.7	2,269	1.7
Subcontracting income for LED beads	1,025	0.6	—	—
Total	170,118	100.0	132,887	100.0

For the nine months ended 30 September 2019, revenue from LED beads amounted to approximately RMB162.8 million (2018: approximately RMB130.6 million), accounting for approximately 95.7% of the total revenue (2018: approximately 98.3%). The increase in revenue was mainly due to an increase in the sales volume during the Period, as the demand for backlight LED products and LED beads in the PRC remained robust.

Revenue from LED lighting products during the Period amounted to approximately RMB6.3 million (2018: approximately RMB2.3 million), representing approximately 3.7% of the total revenue (2018: approximately 1.7%).

Subcontracting income during the Period amounted to approximately RMB1.0 million (2018: nil), representing approximately 0.6% of the total revenue (2018: nil).

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 25.2% from approximately RMB103.2 million for the nine months ended 30 September 2018 to approximately RMB129.2 million for the nine months ended 30 September 2019, reflecting an increase in the sales volume of the LED beads and LED lighting products, which mainly led to the increase in the cost of material used.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit and Gross Profit Margin

The gross profit increased from approximately RMB29.6 million for the nine months ended 30 September 2018 to approximately RMB40.9 million for the nine months ended 30 September 2019. The gross profit margin increased from approximately 22.3% for the nine months ended 30 September 2018 to approximately 24.0% for the nine months ended 30 September 2019. The following table sets forth a breakdown of the gross profit and the gross profit margin by segment for the periods indicated:

	Nine months ended 30 September 2019		Nine months ended 30 September 2018	
	Gross profit RMB'000 (unaudited)	Gross profit margin %	Gross profit RMB'000 (unaudited)	Gross profit margin %
LED beads	36,786	22.6	28,574	21.9
LED lighting products	3,062	48.9	1,073	47.3
Subcontracting income for LED beads	1,025	N/A ^(Note)	—	—
Total gross profit/gross profit margin	40,873	24.0	29,647	22.3

The gross profit margin of LED beads increased from approximately 21.9% for the nine months ended 30 September 2018 to approximately 22.6% for the nine months ended 30 September 2019. Such increase was mainly attributable to the decrease in the average purchase price of the raw materials.

The gross profit margin of LED lighting products remained relatively stable during the nine months ended 30 September 2019 and 30 September 2018.

Note: The gross profit margin did not apply to the subcontracting income as the amount of subcontracting income was recognised after deducting the corresponding cost of sales.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Other Income and Gains

Other income and gains of the Group increased by approximately 60.0% from approximately RMB0.5 million for the nine months ended 30 September 2018 to approximately RMB0.8 million for the nine months ended 30 September 2019, which was mainly due to the increase in bank interest income during the Period.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 62.5% from approximately RMB0.8 million for the nine months ended 30 September 2018 to approximately RMB1.3 million for the nine months ended 30 September 2019. The increase in selling and distribution expenses was mainly attributable to the increase in sales and marketing staff costs and traveling expenses.

Administrative and Other Expenses

The Group's administrative and other expenses increased by approximately 68.9% from approximately RMB13.2 million for the nine months ended 30 September 2018 to approximately RMB22.3 million for the nine months ended 30 September 2019. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The increase in administrative and other expenses was mainly due to (i) the increase in research and development expenses; and (ii) the increase in the professional services expenses in relation to the preparation of transfer of the Company's listing from the GEM to the Main Board of the Stock Exchange. The research and development expenses were approximately RMB9.2 million for the nine months ended 30 September 2019 (2018: approximately RMB6.9 million), as the Group has placed more emphasis on the research and development in relation to the slim LED beads together with the commission of the School of Applied Physics and Material Science of Wuyi University (五邑大學) by the Group to conduct specific research projects for the Group starting in the second half of 2018. The professional services expenses in relation to the preparation of transfer from the GEM to the Main Board of the Stock Exchange (the "**Transfer Expenses**") were approximately RMB6.0 million for the nine months ended 30 September 2019 (2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance Costs

The Group's finance costs was approximately RMB0.3 million for the nine months ended 30 September 2019 (2018: nil). The increase in finance costs was mainly attributable to the new bank borrowings during the Period. As at 30 September 2019, the total available banking facilities of the Group were RMB12.0 million (31 December 2018: nil). The total borrowing drawn down from the banking facilities as at 30 September 2019 was approximately RMB5.7 million (31 December 2018: nil).

Income Tax Expense

Income tax expense of the Group for the Period was approximately RMB4.1 million (2018: approximately RMB2.9 million). The increase in income tax expense was primarily attributable to the Group's increase in revenue during the Period.

Profit for the Period

The profit for the Period increased by approximately RMB0.2 million or approximately 1.5% from approximately RMB13.3 million for the nine months ended 30 September 2018 to approximately RMB13.5 million for the nine months ended 30 September 2019. The slight increase in profit for the Period was mainly attributable to the increase in gross profit offset by the increase in administrative and other expenses, in particular, the Transfer Expenses, for the Period, as compared to the Previous Period.

Net Profit Margin

The net profit margin was approximately 8.0% for the nine months ended 30 September 2019, compared to that of approximately 10.0% for the nine months ended 30 September 2018. The decrease was mainly due to the increase in administrative and other expenses, in particular, the Transfer Expenses, for the Period.

Dividend

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Use of Proceeds

Based on the placing price of HK\$0.63 per share, the net proceeds from the listing on 30 December 2016, after deducting the underwriting commission and other estimated expenses, amounted to approximately HK\$37.4 million. The Group intended to apply 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 September 2019, the Group's planned application and actual utilisation of the net proceeds is set out below:

Use of proceeds	Net			Expected timeline for utilising the unutilised proceeds ^(Note)
	proceeds HK\$ million	Utilised HK\$ million	Unutilised HK\$ million	
Expansion of the Group's production capacity	21.7	20.2	1.5	Fully utilised in October 2019
Developing the Group's sales channels	0.8	0.5	0.3	On or before 31 December 2020
Repayment of bank loans	11.4	11.4	—	N/A
General working capital of the Group	3.5	3.5	—	N/A
	37.4	35.6	1.8	

Note: The expected timeline for utilising the unutilised proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

As at 30 September 2019, the interests and short positions of the Directors and chief executive of the Company in the shares (the “**Shares**”), underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the ordinary shares of the Company

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

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

Save as disclosed above, as at 30 September 2019, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

As at 30 September 2019, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

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

Save as disclosed above, as at 30 September 2019, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Share Option Scheme

The share option scheme was adopted by the shareholders of the Company and was effective on 2 December 2016 (the **"Share Option Scheme"**). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 30 September 2019, no share option was outstanding under the Share Option Scheme. No share option has been granted by the Company under the Share Option Scheme since its adoption.

Exempted Continuing Connected Transaction

During the nine months ended 30 September 2019, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards and the details of the material related party transactions (the **"Transactions"**) are disclosed in note 8 to the condensed consolidated financial statements of this report.

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

Significant Investments

As at 30 September 2019, there was no significant investment held by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Material Acquisitions and Disposals

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

Capital Commitments

As at 30 September 2019, the Group has capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to RMB3.7 million (31 December 2018: approximately 1.0 million).

Charge on the Group's assets

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

- (i) time deposits of nil (31 December 2018: approximately RMB3.0 million); and
- (ii) financial assets at fair value through profit or loss of approximately RMB9.6 million (31 December 2018: approximately RMB6.9 million).

As at 30 September 2019, the Group pledged time deposit of RMB1.0 million (31 December 2018: nil) for the bank borrowings.

In addition, as at 30 September 2019, charges were created over the right-of-use assets of approximately RMB2.8 million under a finance lease arrangement (31 December 2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Contingent Liabilities

As at 30 September 2019, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the nine months ended 30 September 2019, the Group did not hedge any exposure to foreign exchange risk.

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 nine months ended 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 nine months ended 30 September 2019.

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zhao Yi Wen (“**Mr. Zhao**”) is both the chairman of the Board and the chief executive officer of the Company. In view of Mr. Zhao being one of the founders of the Group and has been operating and managing Zhuhai HongGuang, the operating subsidiary of the Company, since 2010, the Board believes that it is in the best interest of the Group to have Mr. Zhao taking up both roles for effective management and business development.

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

As notified by the Company’s compliance adviser, Lego Corporate Finance Limited (the “**Compliance Adviser**”), save for acting as the compliance adviser and a joint sponsor in respect of the application for the proposed transfer of listing from the GEM to the Main Board of the Stock Exchange as at the date of this results report, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 30 September 2019 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Audit Committee and Review of Accounts

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

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

Hong Kong, 8 November 2019

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

* *For identification purpose only*