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TC ORIENT LIGHTING HOLDINGS LIMITED

達進東方照明控股有限公司

(Incorporated in the Cayman Islands with limited liability)

website: www.tatchun.com

(Stock Code: 515)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

The Board (the “**Board**”) of directors (the “**Directors**”) is pleased to announce the unaudited consolidated interim results of TC Orient Lighting Holdings Limited (the “**Company**”) and its subsidiaries (collectively known as the “**Group**”) for the six months ended 30 June 2019. These interim condensed consolidated financial statements were not audited.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		For the six months ended	
		30 June	
		2019	2018
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	3	130,768	189,431
Cost of sales		<u>(130,311)</u>	<u>(193,923)</u>
Gross profit/(loss)		457	(4,492)
Other income		5,809	10,550
Other losses		(2,733)	(11,832)
Selling and distribution expenses		(9,811)	(10,145)
Administrative expenses		(28,954)	(30,955)
Finance costs		<u>(8,436)</u>	<u>(14,178)</u>
Loss before tax		(43,668)	(61,052)
Income tax expense	4	<u>(71)</u>	<u>(18)</u>
Loss for the period	5	<u>(43,739)</u>	<u>(61,070)</u>
Other comprehensive expense:			
<i>Items that will not be reclassified to profit or loss:</i>			
(Deficit)/gain on revaluation of properties		(1,349)	3,725
Deferred tax assets/(liabilities) arising from revaluation of properties		337	(931)
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>—</u>	<u>(811)</u>
Total comprehensive expense for the period		<u>(44,751)</u>	<u>(59,087)</u>

		For the six months ended	
		30 June	
		2019	2018
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Loss for the period attributable to:			
Owners of the Company		(41,660)	(51,387)
Non-controlling interests		(2,079)	(9,683)
		<u>(43,739)</u>	<u>(61,070)</u>
Total comprehensive expense for			
the period attributable to:			
Owners of the Company		(42,672)	(50,033)
Non-controlling interests		(2,079)	(9,054)
		<u>(44,751)</u>	<u>(59,087)</u>
Loss per share (<i>HK cents</i>)			
– Basic and diluted	7	<u>(1.61)</u>	<u>(2.43)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	150,442	156,213
Prepaid lease payments			
– non-current portion		16,690	16,998
Right-of-use asset		1,204	–
Trade receivables with extended credit terms	9	9,592	17,088
		<u>177,928</u>	<u>190,299</u>
Current assets			
Inventories		39,827	40,982
Prepaid lease payments – current portion		615	615
Trade and other receivables	9	432,797	396,259
Bills receivable	9	7,549	7,894
Pledged bank deposits		21,370	10,333
Bank balances, deposits and cash		23,785	21,150
		<u>525,943</u>	<u>477,233</u>
Current liabilities			
Trade and other payables	10	277,999	268,903
Contract liabilities		10,559	14,263
Bills payable	10	43,928	23,015
Lease liabilities		1,062	–
Taxation payable		64,668	64,781
Bank borrowings – due within one year		154,138	145,402
		<u>552,354</u>	<u>516,364</u>
Net current liabilities		<u>(26,411)</u>	<u>(39,131)</u>
Total assets less current liabilities		<u>151,517</u>	<u>151,168</u>

	30 June	31 December
	2019	2018
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Non-current liabilities		
Lease liabilities	133	–
Deferred taxation	14,166	14,503
	14,299	14,503
Net assets	137,218	136,665
Capital and reserves		
Share capital	271,824	226,520
Reserves	(93,211)	(50,539)
Equity attributable to owners of the Company	178,613	175,981
Non-controlling interests	(41,395)	(39,316)
Total equity	137,218	136,665

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements (the “**Interim Financial Statements**”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with Hong Kong Accounting Standard (the “**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The interim financial report has been prepared in accordance with same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

(b) Going concern basis

The Group incurred a loss approximately HK\$43,739,000 during the period ended 30 June 2019 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$26,411,000. In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. The Directors adopted the going concern basis for the preparation of the condensed consolidated financial statements and implemented the following measures in order to improve the working capital and liquidity and cash flow position of the Group:

(1) Necessary facilities

The Group is in the process of negotiating with its bankers to secure necessary facilities to meet the Group’s working capital and financial requirements in the near future.

(2) Financial support

One of the shareholders has agreed to continuously provide financial support for the continuing operations of the Group so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 30 June 2019.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HKFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

HKFRS 16 Leases

The Group leases various offices. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the 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.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including insubstance fixed payments).

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

The Group has adopted HKFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019 in each territory or region where the lease assets are located.

The Group elected the modified retrospective approach for the application of HKFRS 16 as lessee and recognised the cumulative effect of initial application without restating comparative information.

3. SEGMENT INFORMATION

The following is an analysis of the Group's turnover and results by reportable and operating segments:

	For the six months ended	
	30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Segment turnover – external sales		
Manufacturing and trading of single-sided printed circuit boards (“PCB”) (“Single-sided PCB”)	44,138	46,543
Manufacturing and trading of double-sided PCB (“Double-sided PCB”)	70,563	24,146
Manufacturing and trading of multi-layered PCB (“Multi-layered PCB”)	16,067	83,388
Tradings of tower and electric cable	–	35,354
Total	130,768	189,431
Timing of revenue recognition		
At a point in time	130,768	189,431
Over time	–	–
Segment loss		
Single-sided PCB	(8,006)	(8,874)
Double-sided PCB	(12,798)	(4,603)
Multi-layered PCB	(2,914)	(15,898)
Lighting emitting diode (“LED”) lighting (“LED Lighting”)	(7,207)	(6,929)
Tradings of tower and electric cable	(3,461)	(10,327)
	(34,386)	(46,631)
Other income	61	(94)
Central administrative costs	(907)	(149)
Finance costs	(8,436)	(14,178)
Loss before tax	(43,668)	(61,052)

Segment loss represents the loss incurred by each segment after allocation of selling and administrative staff cost with reference to turnover and without allocation of certain other income, central administrative costs (mainly including audit fee, exchange loss and depreciation of property, plant and equipment for administrative purpose) and finance costs. This is the measure reported to the Board, who is the chief operating decision maker, for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	For the six months ended	
	30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profit Tax	–	–
PRC Enterprise Income Tax (“EIT”)	71	18
	<u>71</u>	<u>18</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018, was gazetted on the following day and became effective from the year of assessment 2018/19. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2,000,000 will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong for both years.

Under the Law of the People’s Republic of China on EIT (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

5. LOSS FOR THE PERIOD

Loss for the period has been arrived after charging/(crediting) the following items:

	For the six months ended	
	30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Directors' emoluments	1,098	1,743
Other staff costs	27,154	35,452
Total staff costs	28,252	37,195
Amortisation of prepaid lease payments	308	458
Depreciation of property, plant and equipment	6,661	6,948
Imputed interest income on trade receivables with extended credit terms (included in other income)	(778)	(2,439)
Interest income on bank deposits and bank balances (included in other income)	(660)	(827)
Sales of scrap materials (included in other income)	(2,834)	(6,508)
Government grants (<i>note</i>)	–	(25)
Provision for compensation charges	2,299	1,250
Impairment loss, recognised on trade and other receivable	–	9,764

Note: Government grants were granted to the Group as subsidies to support the PRC subsidiaries. The government grants had no conditions or contingencies attached to them and they were non-recurring in nature.

6. DIVIDENDS

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2018: nil).

The Directors of the Company have determined that no dividend will be paid in respect of the interim period.

7. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

	For the six months ended	
	30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share:		
Loss for the period attributable to owners of the Company	<u>(41,660)</u>	<u>(51,387)</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>2,589,879</u>	<u>2,110,381</u>

Note: The above figure has been reclassified to conform to the current period's presentation or restated to disclose the impact of right issue.

The calculation of the diluted loss per share for the periods ended 30 June 2019 and 2018 did not assume the exercise of the Company's outstanding share options as the effect is anti-dilutive.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group's buildings classified as property, plant and equipment were revalued by Roma Appraisals Limited, an independent qualified professional valuer not connected with the Group. The buildings were revalued at depreciated replacement cost approach. The resulting loss on revaluation of HK\$1,349,000 was recognised to the property revaluation reserve during the six months ended 30 June 2019 (six months ended 30 June 2018: gain HK\$3,725,000).

During the six months ended 30 June 2019, the Group paid HK\$1,231,000 (six months ended 30 June 2018: HK\$6,962,000) on acquisition of property, plant and equipment.

9. TRADE, BILLS AND OTHER RECEIVABLES

(a) Trade and other receivables

Included in trade and other receivables was trade receivables of approximately HK\$287,917,000 (31 December 2018: HK\$273,221,000) as follows:

	30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i> (audited)
Trade receivables with normal credit terms	307,843	282,669
<i>Less:</i> Allowance for doubtful debts	<u>(85,448)</u>	<u>(85,448)</u>
	<u>222,395</u>	<u>197,221</u>
Trade receivables with extended credit terms	76,780	87,547
<i>Less:</i> Allowance for doubtful debts	<u>(11,258)</u>	<u>(11,547)</u>
	<u>65,522</u>	<u>76,000</u>
Total trade receivables, net of allowance for doubtful debts	287,917	273,221
<i>Less:</i> Non-current portion of trade receivables with extended credit terms	<u>(9,592)</u>	<u>(17,088)</u>
Current portion of trade receivables	<u><u>278,325</u></u>	<u><u>256,133</u></u>

The Group generally allows an average credit period of 30 days to 180 days to its trade on PCB customers and tradings of towers and electric cable customers with normal credit terms and credit period ranging from one year to ten years to its trade LED lighting customers with extended credit terms which is based on the contractual repayment schedule. The following is an aging analysis of trade receivables with normal credit terms and trade receivables with extended credit terms, net of allowance for doubtful debts, respectively, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	Extended credit terms		Normal credit terms		Total	
	30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i> (audited)	30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i> (audited)	30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i> (audited)
0 – 30 days	–	–	30,104	24,053	30,104	24,053
31 – 60 days	–	–	30,654	22,458	30,654	22,458
61 – 90 days	–	–	21,521	18,345	21,521	18,345
91 – 180 days	–	–	58,625	57,630	58,625	57,630
Over 180 days	65,522	76,000	81,491	74,735	147,013	150,735
	65,522	76,000	222,395	197,221	287,917	273,221

Movement in the lifetime ECL for trade receivables with normal credit terms:

	30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i> (audited)
Balance at beginning of the period	85,448	4,729
HKFRS9 remeasurement	–	10,533
Allowance for expected credit losses	–	70,186
	85,448	85,448

(b) Bills Receivable

The following is an aging analysis of bills receivable based on issue date of the bills at the end of the reporting period:

	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
0 – 30 days	3,649	–
31 – 60 days	3,026	–
61 – 90 days	–	7,894
91 – 180 days	–	–
Over 180 days	874	–
	7,549	7,894

10. TRADE, BILLS AND OTHER PAYABLES

(a) Trade and other payables

The aging analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
0 – 30 days	17,612	12,415
31 – 60 days	10,264	9,623
61 – 90 days	9,587	12,331
91 – 180 days	31,028	35,963
Over 180 days	36,547	49,994
	105,038	120,326
Other payables	147,954	125,610
Accrued salaries and other accrued charges	25,007	22,967
	277,999	268,903

The credit period on purchases of goods ranged from 90 days to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

(b) Bills payable

The aging analysis of bills payable is as follows:

	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
0 – 30 days	3,459	–
31 – 60 days	2,078	–
61 – 90 days	17,854	8,564
91 – 180 days	20,537	14,378
Over 180 days	–	73
	43,928	23,015

11. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to banks to secure general banking facilities granted to the Group:

	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
Buildings	118,333	121,172
Plant and machinery	–	–
Pledged bank deposits	21,370	10,333
Prepaid lease payments	17,305	17,613
	157,008	149,118

BUSINESS REVIEW

During the period under review, the Group is principally engaged in the manufacturing and trading of a broad range of LED lighting and PCBs including single-sided PCBs, double-sided PCBs and multi-layered PCBs (for up to 12 layers) and the trading of tower and electric cable. The breakdown of turnover based on products is summarised as follows:

	For the six months ended 30 June					
	2019		2018		Increase/ (decrease)	Change in
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Single-sided PCB	44,138	33.8	46,543	24.6	(2,405)	(5.2)
Double-sided PCB	70,563	54.0	24,146	12.7	46,417	92.2
Multi-layered PCB	16,067	12.2	83,388	44.0	(67,321)	(80.7)
Trading of tower and electric cable	—	—	35,354	18.7	(35,354)	(100.0)
Total	130,768	100.0	189,431	100.0	(58,663)	(31.0)

Revenue from LED lighting business for the six months ended 30 June 2019 was nil.

The three categories of PCB products are mainly applied in consumer electronics, computers and computer peripherals, and communications equipment. During the period, single and double-sided PCB's used for consumer electronics accounted for approximately 87.8% of the Group's turnover. High-end multi-layered PCBs accounting for 12.2% of turnover.

During the period under review, the breakdown of turnover based on geographical locations is summarised as follows:

	For the six months ended 30 June					
	2019 HK\$'000	%	2018 HK\$'000	%	Increase/ (decrease) HK\$'000	Change in %
Hong Kong	30,427	23.3	30,670	16.2	(243)	0.8
The PRC	77,807	59.5	130,672	69.0	(52,865)	(40.5)
Asia (excluding Hong Kong and the PRC)	4,554	3.5	3,959	2.1	595	15.0
Europe	14,068	10.8	21,705	11.5	(7,637)	(35.2)
Others	3,912	2.9	2,425	1.2	1,487	61.3
Total	<u>130,768</u>	<u>100.0</u>	<u>189,431</u>	<u>100.0</u>	<u>(58,663)</u>	<u>31.0</u>

During the period under review, the Group's revenue decreased mainly due to the decrease of revenue from the segments of multi-layered PCB and the trading of tower and electric cable.

FINANCIAL REVIEW

During the period under review, the Group's turnover amounted to approximately HK\$130.8 million, representing a decrease of 31.0% as compared to approximately HK\$189.4 million for the corresponding period last year. The gross profit margin for the six months ended 30 June 2019 was 0.35%.

The turnover for manufacturing and tradings of PCBs has decreased mainly attributable to (i) more severe competition in PCB industry; and (ii) reduction in average selling price of PCBs.

Loss attributable to shareholders was approximately HK\$41.7 million (2018: HK\$51.4 million).

The PCB business has been the Group's main source of income for many years. During the first half of 2019, the Group's purchase orders for multi-layered PCBs decreased by approximately 80.7% from approximately HK\$83.4 million to approximately HK\$16.1 million, due to severe competition from competitors.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2019, the Group had total assets of approximately HK\$703.9 million (31 December 2018: HK\$667.5 million) and interest-bearing borrowings of approximately HK\$177.2 million (31 December 2018: HK\$200.5 million), representing a gearing ratio (defined as interest-bearing borrowings over total assets) of approximately 25.2% (31 December 2018: 30.0%).

The Group had net current liabilities of approximately HK\$26.4 million (31 December 2018: HK\$39.1 million) consisted of current assets of approximately HK\$525.9 million (31 December 2018: HK\$477.2 million) and current liabilities of approximately HK\$552.4 million (31 December 2018: HK\$516.4 million), representing a current ratio of approximately 0.95 (31 December 2018: 0.92).

As at 30 June 2019, the Group had cash and bank balances (including pledged bank deposits) of approximately HK\$45.2 million (31 December 2018: HK\$31.5 million). As at 30 June 2019, the Group had bank balances, deposit and cash of approximately HK\$23.8 million (31 December 2018: HK\$21.2 million).

FOREIGN CURRENCY EXPOSURE

The Group operates in Hong Kong and the PRC with most of the transactions denominated and settled in Hong Kong dollars (“**HK\$**”) and Renminbi (“**RMB**”). However, foreign currencies, mainly United States Dollars (“**US\$**”) is required to settle the Group’s expenses and additions on property, plant and equipment. There are also sales transactions denominated in US\$ and RMB. The Group will consider using forward contracts to hedge its foreign currency exposure if it considers the risk to be significant.

DIVIDENDS

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

HUMAN RESOURCES

As at 30 June 2019, the Group employed a total of approximately 975 employees (31 December 2018: 1,044), including approximately 938 employees in its Zhongshan production site, 20 employees in its PRC LED business units and 17 employees in its Hong Kong office.

The Group's remuneration policy is reviewed regularly, with reference to the legal framework, market conditions and the performance of the Group and individual staff. The remuneration policy and remuneration packages of the executive directors and members of the senior management are also reviewed by the remuneration committee. The Group may grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals. Under the Group's remuneration policy, employees are rewarded in line with the market rate in compliance with statutory requirements of all jurisdictions where it operates. The Group intends to hold regular training programmes and encourages staffs to attend training courses and seminars that are related directly or indirectly to the Group's business.

CORPORATE STRATEGY

The primary objective of the Company is to enhance long-term total return for our shareholders. To achieve this objective, the Group's strategy is to place equal emphasis on achieving sustainable recurring earnings growth and maintaining the Group's strong financial profile. The Management Discussion and Analysis contain discussions and analysis of the Group's performance and the basis on which the Group generates or preserves value over the longer term and the basis on which the Group will execute its strategy for delivering the Group's objective.

FUND RAISING ACTIVITIES

Subscriptions of 453,039,495 share at HK\$0.10 per share

As announced by the Company on 17 January 2019, the Company entered into share subscription agreements with not less than six share subscribers in relation to the subscriptions of 453,039,495 ordinary shares (“**Subscription Share(s)**”) of the Company at the subscription price of HK\$0.10 per Subscription Share. The subscriptions were carried out under the general mandate approved by the Company’s shareholders at the annual general meeting held on 6 June 2018. Completion of the subscriptions took place on 21 February 2019, with 453,039,495 ordinary shares of the Company allotted and issued to the subscribers. The gross and net proceeds from the subscriptions were approximately HK\$45.3 million and HK\$45.1 million, respectively. It is intended that such net proceeds will be used by the Company for the Group’s business development, investments, acquisition, repayment of loan and general working capital purposes. As of 30 June 2019, the entire amount of the net proceeds from the subscriptions was utilized as intended, including approximately HK\$1.2 million utilized for the Group’s business development, approximately HK\$9.0 million utilized for the Group’s repayment of loan and interest expenses, the remaining HK\$34.9 million utilized for the Group’s corporate expenses and overheads including salaries and emoluments, rental expenses and professional fees.

OUTLOOK

The Board considers that it is vital and necessary for the Group to dedicate more efforts on the research and development with the view to achieving product upgrade. The Group has paid high attention to develop high value-added PCB products, particularly the copper-based PCB engaged in clean and environmental friendly applications.

Regarding the LED segment, the Group intends to focus on credit management and to optimize the trade receivable collection. The Group intends to pursue only after profitable projects with shorter receivable cycle.

LITIGATION

- (a) The Company was informed by its legal advisers that a writ of summons dated 10 May 2016 under Hong Kong High Court Action No. 1228/2016 (the “**Legal Action**”) was filed by Mr. Li Jian Chao (“**Mr. Li**”) seeking to claim from the Company an alleged outstanding special bonus payment in the amount of HK\$1,640,000. Mr. Li was formerly the chief executive officer and executive director the Company before he resigned on 5 June 2015. On 12 July 2016, the Company filed a defence and counterclaim against Mr. Li (re-amended on 3 May 2018, the “**Counterclaim**”), whereby the Company denied (inter alia) that Mr. Li is entitled to the alleged amount and counterclaimed from Mr. Li (inter alia) a total sum of HK\$5,240,000, being wrongful receipts by Mr. Li based on certain invalid resolutions purportedly passed by the Board between 31 December 2014 and 4 June 2015, and/or damages for breach of fiduciary duties by Mr. Li when he was a director of the Company between 1 September 2014 and 5 June 2015. The Company will continue to uphold its rights in the Legal Action and the Counterclaim. In the meantime, the Board considers that the Legal Action and the Counterclaim are unlikely to result in any material adverse effect to the Company’s operations or financial position. Further details relating to the Legal Action and Counterclaim are more particularly set out in the Company’s announcements dated 13 May and 14 July 2016.
- (b) On 13 August 2018, TC Orient (Jiangsu) Optoelectronic Company Limited (達進東方(江蘇)光電有限公司) (“**TCO Jiangsu**”), a subsidiary of the Company, received a writ issued by 連雲港嘉銳建築工程有限公司 (the “**Plaintiff**”) against TCO Jiangsu and filed with Lianyungang City Lianyun District People’s Court (“**Lianyungang Court**”) together with the related court summons, whereby the Plaintiff alleged that TCO Jiangsu shall make a payment of RMB11,062,094.81 (approximately HK\$12,863,000) to them in settlement of certain construction cost (the “**Jiangsu Legal Action**”). The Company has instructed its legal advisor to uphold its right in the Jiangsu Legal Action. In the meantime, the Board considers that the Jiangsu Legal Action is unlikely to result in any material adverse effect to the Company’s operations or financial position.

During the year ended 31 December 2018, the Group entered into a sale and purchase agreement to dispose its 100% equity interest in Best Pursue Holdings Limited (“**Best Pursue**”), TC Orient Jiangsu Holdings Company Limited (“**TC Orient (JS) Holdings**”) and TCO Jiangsu to an independent third party (the “**Purchaser**”) for cash consideration of HK\$20,000,000. The disposal was completed on 31 December 2018.

- (c) In January 2019, 吳川榮森貿易有限公司 (“**Wuchuan Rongsen**”), a subsidiary of the Company, applied to Wuchuan City District People’s Court (吳川市人民法院) (“**Wuchuan Court**”) to have 廣東威立電力器材有限公司 (“**Guangdong Weili**”) liquidated (the “**Liquidation Application**”) due to its failure to repay trade receivables of RMB48,944,917 on or before 30 May 2018, despite its previous undertaking to Wuchuan Rongsen to do so pursuant to a settlement agreement (the “**Settlement Agreement**”) entered into by the parties in December 2017. As a prudent measure, impairment loss on trade receivables for the year ended 31 December 2018 was made in respect of the entire sum of trade receivables of RMB48,944,917.

CHARGE OF ASSETS

Details of the charge of assets are set out in note 11 to the financial statements.

OTHER INFORMATION

Purchase, Sale or Redemption of the company’s Listed Securities

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of its own listed securities.

Compliance with the Code of Corporate Governance Practices

The Company and the Directors confirm, to the best of their knowledge, that the Company complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) as stated in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) during the six months ended 30 June 2019, except the deviation disclosed in the following paragraph:

- (i) Under Code Provision A.2.1, the roles of Chairman and chief executive officer (“**CEO**”) should be separated and not be performed by the same individual. Following the resignation of Mr. Chen Yongsan as the Chairman of the Company with effect from 20 April 2018 and the resignation of Mr. Wang Shi Jin as the Company’s CEO with effect from 5 June 2018, the positions of chairman and CEO are currently vacant. The Company is identifying suitable candidates to fill the vacancies.

- (ii) Under Code Provision A.6.7, independent non-executive directors should attend the annual general meeting of the Company. Certain directors were unable to attend the annual general meeting of the Company held on 30 May 2019 due to other commitments. However, views expressed by shareholders at general meetings are recorded and circulated for discussion by all directors regardless of attendance. The Company will plan its dates of meetings in advance to facilitate Directors' attendance.
- (iii) Under Code Provision C.1.2, management should provide all members of the Board with monthly updates on the issuer's performance, position and prospects, which may include monthly management accounts and material variance between projections and actual results. During the period under review, although management accounts were not circulated to Board members on monthly basis, regular verbal updates were given by management to Directors on working level meetings from time to time, which the management considers to be sufficient and appropriate in the circumstances in giving a balanced and understandable assessment of the issuer's performance and enabling Directors to discharge their duties.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

Compliance with the model code for Securities Transactions by Directors of Listed Issuers

The Company follows the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct for Directors in their dealings in the Company's securities. All existing directors have confirmed to the Company that they have complied with the Model Code during the six months ended 30 June 2019.

Audit Committee

As at 30 June 2019, the Audit Committee of the Company ("AC") comprised of four independent non-executive Directors, namely, Dr. Loke Yu (alias Loke Hoi Lam), Mr. Li Hongxiang, Mr. Wong Kwok On and Mr. Bonathan Wai Ka Cheung. One out of four AC members, Dr. Loke Yu possesses recognised professional qualifications in accounting and has wide experience in audit and accounting. As at 30 June 2019, Dr. Loke Yu is the chairman of AC.

No former partner of the Company's existing auditing firm acted as a member of the AC within one year from ceasing to be a partner or having any financial interest in the auditing firm.

The AC was delegated with the authority of the Board of the Company to investigate any activity within its terms of reference. The primary function of the AC is to review and supervise the Group's financial reporting process and internal controls. The AC has also reviewed arrangements to enable employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure proper arrangements that in place for fair and independent investigation and follow up actions. The full terms of reference of the AC are available on the Company's website: www.tatchun.com and the website of the Stock Exchange: www.hkexnews.hk.

The Group's unaudited financial statements for the six months ended 30 June 2019 have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

By order of the Board
TC Orient Lighting Holdings Limited
Zeng Yongguang
Executive Director

Hong Kong, 23 August 2019

As at the date hereof, the Board comprises Mr. Zeng Yongguang, Mr. Xu Ming, Mr. Guo Jun Hao and Mr. Mai Huazhi as executive Directors; and Mr. Li Hongxiang, Mr. Wong Kwok On, Mr. Bonathan Wai Ka Cheung and Dr. Loke Yu (alias Loke Hoi Lam) as independent non-executive Directors.