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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: 6908)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020

Comparing to the corresponding six months ended 30 June 2019

- Based on the unaudited condensed consolidated results of HongGuang Lighting Holdings Company Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Period**”), the Group’s revenue for the Period decreased to approximately RMB42.8 million, representing a decrease of approximately 52.3% as compared to approximately RMB89.7 million for the six months ended 30 June 2019 (the “**Previous Period**”).
- During the Period, the Group’s gross profit decreased to approximately RMB9.8 million, representing a decrease of approximately 54.0% as compared to approximately RMB21.3 million for the Previous Period.
- During the Period, the Group’s net profit decreased to approximately RMB0.1 million, representing a decrease of approximately 97.0% as compared to approximately RMB3.3 million for the Previous Period.
- Earnings per share for the six months ended 30 June 2020 decreased by approximately 96.3% to approximately RMB cents 0.03 (six months ended 30 June 2019: approximately RMB cents 0.82).

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

For the six months ended 30 June 2020

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 2020 (the “**Period**”), together with the comparative unaudited figures for the corresponding period in 2019 (the “**Previous Period**”), as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	42,826	89,662
Cost of sales		<u>(33,038)</u>	<u>(68,404)</u>
Gross profit		9,788	21,258
Other income and gains	4	623	550
Selling and distribution expenses		(542)	(637)
Administrative and other expenses		(9,247)	(15,550)
Provision on expected credit loss on trade and bills receivables		(102)	(162)
Finance costs	5	<u>(348)</u>	<u>(168)</u>
Profit before income tax expense		172	5,291
Income tax expense	6	<u>(58)</u>	<u>(2,002)</u>
Profit for the period attributable to owners of the Company		<u>114</u>	<u>3,289</u>
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		<u>21</u>	<u>(91)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>135</u>	<u>3,198</u>
Earnings per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	8	<u>0.03</u>	<u>0.82</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	30,962	31,951
Intangible assets		1,240	1,580
Prepayments and deposits	11	526	195
Deferred tax assets		257	198
		<u>32,985</u>	<u>33,924</u>
Current assets			
Inventories		24,659	23,387
Trade and bills receivables	10	133,250	137,180
Prepayments and other receivables	11	7,523	8,130
Financial assets at fair value through profit or loss	12	2,230	13,190
Cash and cash equivalents	13	2,189	30,285
		<u>169,851</u>	<u>212,172</u>
Current liabilities			
Trade and bills payables	14	17,797	45,648
Other payables and accruals		5,985	14,794
Bank borrowings	15	7,000	12,850
Lease liabilities		1,558	1,858
Current tax liabilities		1,312	1,195
		<u>33,652</u>	<u>76,345</u>
Net current assets		<u>136,199</u>	<u>135,827</u>
Non-current liabilities			
Lease liabilities		1,453	2,155
		<u>1,453</u>	<u>2,155</u>
Net assets		<u>167,731</u>	<u>167,596</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,580	3,580
Reserves		164,151	164,016
Total equity		<u>167,731</u>	<u>167,596</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 2020 (audited)	3,580	46,162	13,767	580	35,972	(4,710)	72,245	167,596
Profit for the period	—	—	—	—	—	—	114	114
Exchange differences on translating foreign operations	—	—	—	—	—	21	—	21
Total comprehensive income for the period	—	—	—	—	—	21	114	135
Transfer to statutory reserve	—	—	289	—	—	—	(289)	—
At 30 June 2020 (unaudited)	<u>3,580</u>	<u>46,162</u>	<u>14,056</u>	<u>580</u>	<u>35,972</u>	<u>(4,689)</u>	<u>72,070</u>	<u>167,731</u>
At 1 January 2019 (audited)	3,580	46,162	10,480	580	35,972	(4,818)	58,254	150,210
Profit for the period	—	—	—	—	—	—	3,289	3,289
Exchange differences on translating foreign operations	—	—	—	—	—	(91)	—	(91)
Total comprehensive income for the period	—	—	—	—	—	(91)	3,289	3,198
Transfer to statutory reserve	—	—	1,135	—	—	—	(1,135)	—
At 30 June 2019 (unaudited)	<u>3,580</u>	<u>46,162</u>	<u>11,615</u>	<u>580</u>	<u>35,972</u>	<u>(4,909)</u>	<u>60,408</u>	<u>153,408</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from operating activities		
Profit before income tax	172	5,291
Adjustments for:		
Depreciation of property, plant and equipment (<i>note</i>)	2,348	1,718
Depreciation of right-of-use assets	957	163
Amortisation of intangible assets	341	341
Interest income	(244)	(534)
Finance costs	348	168
Exchange gains, net	—	(48)
Provision of expected credit loss on financial asset	102	162
Operating profit before working capital changes	4,024	7,261
Increase in inventories	(1,272)	(3,933)
Decrease in trade and bills receivables	3,828	21,749
Decrease/(increase) in prepayments and other receivables	1,813	(10,741)
Decrease in trade and other payables	(36,660)	(17,021)
Cash used in operations	(28,267)	(2,685)
Income tax paid	(1,499)	(2,770)
Net cash flows used in operating activities	(29,766)	(5,455)
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,338)	(2,990)
Decrease in financial assets at fair value through profit or loss, net	10,960	615
Decrease in pledged deposits	—	2,960
Interest received	244	534
Net cash flows generated from investing activities	8,866	1,119

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Cash flows from financing activities		
Interest paid	(348)	(168)
Repayments of principal portion of the lease liabilities	(1,003)	(143)
Proceeds from bank borrowings	10,000	12,000
Repayment of bank borrowings	<u>(15,850)</u>	<u>(5,650)</u>
Net cash flows (used in)/generated from financing activities	<u>(7,201)</u>	<u>6,039</u>
Net (decrease)/increase in cash and cash equivalents	(28,101)	1,703
Effect of exchange rate changes on cash and cash equivalents	5	7
Cash and cash equivalents at the beginning of period	<u>30,285</u>	<u>49,778</u>
Cash and cash equivalents at the end of period	<u><u>2,189</u></u>	<u><u>51,488</u></u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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. The shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 30 December 2016 with stock code “8343” and have been transferred from the GEM to the Main Board of the Stock Exchange on 13 November 2019 with stock code “6908”.

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, manufacturing, subcontracting service 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 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 2020 are consistent with those adopted by the Group in its audited consolidated financial statements for the year ended 31 December 2019 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 which are effective to the Group for accounting periods beginning on or after 1 January 2020. The adoption of the new and revised HKFRSs has no material impact on the Group’s results and financial position for the current or prior periods.

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 2020 have been prepared on the historical cost basis. The unaudited condensed consolidated financial statements for the six months ended 30 June 2020 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. SIGNIFICANT EVENTS

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. The COVID-19 pandemic has caused severe disruption to economic activities worldwide and created significant uncertainties in the business environment faced by the Group. These significant uncertainties include, but not limited to, government measures to combat the spread of the virus and the long-term effects of the pandemic on the demand for the Group’s primary products.

The significant events and transactions that have occurred since 31 December 2019 relate to the effects of the global pandemic on the Group's condensed consolidated interim financial statements for the six months ended 30 June 2020 and are summarised as follows.

(a) Decrease in sales and cash flows

As disclosed in Note 4, the sales of LED beads and LED lighting products have experienced significant reductions since the pandemic's effects became widespread. The Group considered the reduced sales and reductions in budgeted revenue as indicators of impairment, and therefore determined the recoverable amount for all of its cash generating units ("CGU"). The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use was higher in all cases due to the nature of the assets included in the carrying amount of cash generating units.

Recoverable amount exceeded the carrying amount on cash generating unit based on forecast cash flows. No impairment on the CGU of the Group for the six months ended 30 June 2020.

(b) Expected credit losses

The Group makes estimates of expected credit losses attributable to trade receivables arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates.

The economic downturn and uncertainties that have arisen as a result of COVID-19 have made these estimates more judgemental, which the Group has taken into account in its determination of applicable expected credit losses.

3. CHANGES IN HKFRSs

The Group has applied the same accounting policies in these interim condensed consolidated financial statements as in its 2019 annual consolidated financial statements, except that it has adopted the following amendments to HKFRSs:

- Amendments to HKFRS 3: Definition of a Business, which is first effective for the current accounting period; and
- Amendments to HKFRS 16: Covid-19-Related Rent Concessions, which is not yet effective for the current accounting period but early adopted by the Group.

The new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information.

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. The principal activities of the Group are sale of the LED beads and LED lighting products and subcontracting service.

The sales contract terms not allow rebate, discount, warranties and return on revenue. During the six months ended 30 June 2020 and 2019, there is no rebate, discount, warranties and return on revenue.

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

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue recognised at a particular point in time		
Sales of LED beads	42,359	85,904
Sales of LED lighting products	—	3,758
Revenue recognised overtime		
Subcontracting service	467	—
	<u>42,826</u>	<u>89,662</u>
Other income and gains		
Bank interest income	244	534
Government grants	379	—
Others	—	16
	<u>623</u>	<u>550</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Interest on bank borrowings repayable within five years	242	125
Interest expense on lease liabilities	106	43
	<u>348</u>	<u>168</u>

6. 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 2020 and 2019.

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 first awarded a “New and High Technology Enterprise Certificate” (高新技術企業證書). In 2019, Zhuhai HongGuang has successfully renewed its status of New and High Technology Enterprise* (高新技術企業). Accordingly, 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 2019 to 31 December 2021.

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 2020 and 2019.

7. DIVIDEND

No dividend has been paid or declared by the Company for the six months ended 30 June 2020 (2019: Nil), or by any of the companies now comprising the Group during the reporting period.

8. EARNINGS PER SHARE

The basic earnings per share for the period is calculated based on the profit attributable to owners of the Company of RMB114,000 (2019: RMB3,289,000), and the weighted average number of ordinary shares of 400,000,000 issued during the six months ended 30 June 2020 and 2019.

The Company did not have any potential dilutive shares for the six months ended 30 June 2020 and 2019. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17.

The property leases from 珠海經濟特區利佳電子發展有限公司, a related party of the Group which 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, with lease term of 10 years from 1 April 2015 to 31 March 2025.

For the period ended 30 June 2020, the carrying amount of the Group's machinery includes an amount of RMB1.6 million of right-of-use asset which the ownership would transfer to the Group by the end of the lease term with no further consideration.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2020, the Group acquired items of plant and machinery with a cost of approximately RMB2,338,000 (six months ended 30 June 2019: approximately RMB2,990,000). There was no disposal of property, plant and equipment during the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

10. TRADE AND BILLS RECEIVABLES

	As at 30 June 2020 <i>RMB'000</i> (unaudited)	As at 31 December 2019 <i>RMB'000</i> (audited)
Trade receivables	128,375	132,153
Bills receivables	<u>4,875</u>	<u>5,027</u>
	<u>133,250</u>	<u>137,180</u>

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

	As at 30 June 2020 <i>RMB'000</i> (unaudited)	As at 31 December 2019 <i>RMB'000</i> (audited)
0 to 30 days	13,695	46,261
31 to 60 days	6,241	23,005
61 to 90 days	9,447	20,968
91 to 120 days	12,297	14,246
121 to 365 days	86,477	33,334
Over 1 year	<u>8,698</u>	<u>2,870</u>
	136,855	140,684
Less: Impairment of trade and bills receivables	<u>(3,605)</u>	<u>(3,504)</u>
	<u>133,250</u>	<u>137,180</u>

11. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Other receivables	67	218
Prepayments and deposits (<i>note</i>)	<u>7,982</u>	<u>8,107</u>
	8,049	8,325
Less: non-current portion		
Prepayments and deposits for acquisition of property, plant and equipment	<u>(526)</u>	<u>(195)</u>
Current portion	<u><u>7,523</u></u>	<u><u>8,130</u></u>

Prepayments, deposits and other receivables do not contain impaired assets.

Note: The amounts includes the prepayment to the independent third parties suppliers amounted to approximately RMB6,958,000 (2019: RMB7,633,000) for purchase of raw material.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 30 June 2020, the financial assets at fair value through profit or loss represent the investment in term deposits that the interest income are indexed to performance of investment portfolios comprising corporate bonds, interest bearing deposit and other kind financial asset or group of financial assets. The interest amounts are not consideration for just the time value of money on the principal amount outstanding.

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

As at 30 June 2020, the financial assets at fair value through profit loss pledged as security for bills payable amounted to RMB2,230,000 (31 December 2019: RMB13,190,000) issued by the Group.

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

13. BANK BALANCES AND CASH

	As at 30 June 2020 <i>RMB'000</i> (unaudited)	As at 31 December 2019 <i>RMB'000</i> (audited)
Bank balances and cash	<u>2,189</u>	<u>30,285</u>
Denominated in RMB	2,032	26,841
Denominated in HK\$	156	3,443
Denominated in US\$	<u>1</u>	<u>1</u>

The bank balances are deposited with creditworthy banks with no history of default. The carrying amounts of the bank balances and cash approximated their fair values at the end of the reporting period. Bank balances and cash denominated in RMB are not freely convertible and the remittance of such funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

14. TRADE AND BILLS PAYABLES

	As at 30 June 2020 <i>RMB'000</i> (unaudited)	As at 31 December 2019 <i>RMB'000</i> (audited)
Trade payables	14,449	33,314
Bills payables	<u>3,348</u>	<u>12,334</u>
	<u>17,797</u>	<u>45,648</u>

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

	As at 30 June 2020 <i>RMB'000</i> (unaudited)	As at 31 December 2019 <i>RMB'000</i> (audited)
0 to 30 days	3,027	12,748
31 to 60 days	4,117	8,693
61 to 90 days	1,333	10,140
91 to 120 days	3,215	4,786
121 to 365 days	5,639	9,076
Over 1 year	<u>466</u>	<u>205</u>
	<u>17,797</u>	<u>45,648</u>

15. BANK BORROWINGS

As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
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Unsecured interest-bearing bank borrowings:

— Repayable on demand or within one year	<u>7,000</u>	<u>12,850</u>
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As at 30 June 2020, the effective interest rates on the Group's bank borrowings were 4.55% per annum.

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

16. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2020, 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	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
珠海經濟區利佳電子發展有限公司	Utility expense	868	1,007
珠海經濟區利佳電子發展有限公司	Rental expense	<u>186</u>	<u>186</u>
		<u>1,054</u>	<u>1,193</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, subcontracting service and sales of light-emitting diode (“**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 are no significant change in the business operations of the Group. During the Period, the Group generally recognised revenue from the sales of LED beads upon delivery of the products to the customers with their acceptance of the products and recognised revenue from subcontracting service based on the stage of completion of the contract by adopting the input method.

Business Review

The Group’s revenue decreased from approximately RMB89.7 million for the six months ended 30 June 2019 to approximately RMB42.8 million for the six months ended 30 June 2020. The significant decrease in revenue during the Period was primarily attributable to the decrease in the sales volume during the Period, as the demand for backlight LED products and LED beads in the PRC has substantially declined as a result of the COVID-19 pandemic (the “**Pandemic**”).

Profit for the Period amounted to approximately RMB0.1 million (approximately RMB3.3 million for the Previous Period), which represents a decrease of approximately RMB3.2 million or approximately 97.0% as compared to that for the corresponding period in 2019. The decrease in profit was primarily due to the significant decrease in revenue during the Period.

Due to the outbreak of the Pandemic, business operations at 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 temporarily disrupted in February 2020, as certain workers in the affected provinces and municipalities were unable to return to the Group’s principal production factory which is located in the Zhuhai City of Guangdong Province after the Chinese New Year Holidays owing to the suspension or limited service of transportation facilities in certain cities in the PRC. Moreover, some of the Group’s customers and suppliers had also experienced an extended period of disruption or suspension in their business operation and production after the Chinese New Year Holidays.

With the improving situation of the prevention and control on the Pandemic and the lifting of local travel restrictions in most parts of the PRC, most of the Group’s workers had reported to duties and the previously affected customers and suppliers had gradually resumed production in the second quarter of 2020. The Group has also imposed the highest hygiene and caution standard in its working environment to protect the health and safety of the staff.

Pessimistic consumer sentiments and the contraction in the overall commercial activity caused by the Pandemic has adversely impacted the business performance of the Group during the Period, as reflected by the cutback or suspension of orders from the Group's customers. The downtrend is expected to be carried forward to certain extent for the rest of 2020. During this critical time with all the increased uncertainties prompted by the Pandemic, the Group will take all practicable measures to cope with the challenges ahead, including the implementation of cost-control measures and the exploration of opportunities to further develop its business and enhance its growth potential.

The Group recognises the importance of research and development to increase resiliency when faced with unprecedented challenges and therefore continues to dedicate efforts on research and development. In 2020, registration of 1 patent was further granted to Zhuhai HongGuang. Furthermore, the Group successfully submitted applications for the registration of 6 patents in the PRC. As at the date of this announcement, the Group is the registered proprietor of 28 patents in the PRC.

Financial Review

Revenue

For the six months ended 30 June 2020, total revenue was approximately RMB42.8 million, representing a decrease of approximately 52.3% as compared with that for the Previous Period (2019: approximately RMB89.7 million). The decrease was mainly attributable to the decrease 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			
	2020		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)		(unaudited)	
LED beads	42,359	98.9	85,904	95.8
LED lighting products	—	—	3,758	4.2
Subcontracting service	467	1.1	—	—
Total	<u>42,826</u>	<u>100.0</u>	<u>89,662</u>	<u>100.0</u>

For the six months ended 30 June 2020, revenue from LED beads amounted to approximately RMB42.4million (2019: approximately RMB85.9 million), accounting for approximately 98.9% of the total revenue (2019: approximately 95.8%). The decrease in revenue was mainly due to the decrease in sales volume during the Period, as the demand for backlight LED products and LED beads in the PRC has substantially declined as a result of the Pandemic.

Revenue from LED lighting products during the Period was nil (2019: approximately RMB3.8 million).

Revenue from subcontracting service during the Period amounted to approximately RMB0.5 million (2019: nil), representing approximately 1.1% of the total revenue (2019: nil).

Cost of Sales

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It decreased by approximately 51.8% from approximately RMB68.4 million for the six months ended 30 June 2019 to approximately RMB33.0 million for the six months ended 30 June 2020, reflecting a decrease in the sales volume of LED beads and LED lighting products, which mainly led to the decrease in the cost of material used.

Gross Profit and Gross Profit Margin

The gross profit decreased from approximately RMB21.3 million for the six months ended 30 June 2019 to approximately RMB9.8 million for the six months ended 30 June 2020. The gross profit margin decreased from approximately 23.7% for the six months ended 30 June 2019 to approximately 22.9% for the six months ended 30 June 2020. 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 2020		Six months ended 30 June 2019	
	Gross profit RMB'000 (unaudited)	Gross profit margin %	Gross profit RMB'000 (unaudited)	Gross profit margin %
LED beads	9,321	22.0	19,445	22.6
LED lighting products	—	—	1,813	48.2
Subcontracting service	467	N/A^(Note)	—	—
Total gross profit/gross profit margin	<u>9,788</u>	<u>22.9</u>	<u>21,258</u>	<u>23.7</u>

Note: The gross profit margin did not apply to the subcontracting service income as the amount was recognised on net basis.

The gross profit margin of LED beads decreased from approximately 22.6% for the six months ended 30 June 2019 to approximately 22.0% for the six months ended 30 June 2020. Such decrease was mainly attributable to the decrease in the average selling price of LED beads.

Other Income and Gains

Other income and gains of the Group increased by approximately 13.3% from approximately RMB550,000 for the six months ended 30 June 2019 to approximately RMB623,000 for the six months ended 30 June 2020, which was mainly due to the increase in government grants from the PRC Government during the Period.

Selling and Distribution Expenses

The selling and distribution expenses decreased by approximately 16.7% from approximately RMB0.6 million for the six months ended 30 June 2019 to approximately RMB0.5 million for the six months ended 30 June 2020. The decrease in selling and distribution expenses was mainly attributable to the decrease in traveling expenses and entertainment expenses as a results of a reduction of marketing activities.

Administrative and Other Expenses

The Group's administrative and other expenses decreased by approximately 41.0% from approximately RMB15.6 million for the six months ended 30 June 2019 to approximately RMB9.2 million for the six months ended 30 June 2020. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses. The decrease in administrative and other expenses was mainly due to the absence of professional services expenses in relation to the Company's transfer of listing from the GEM to the Main Board of the Stock Exchange during the Period. The professional services expenses in relation to the preparation of transfer of listing from the GEM to the Main Board of the Stock Exchange were approximately RMB5.4 million for the six months ended 30 June 2019.

Finance Costs

The Group's finance costs was approximately RMB0.3 million for the six months ended 30 June 2020 (2019: approximately RMB0.2 million). The increase in finance costs was mainly attributable to the increased average drawn down from the banking facilities for the Period, as compared to that for the Previous Period.

Income Tax Expense

Income tax expense of the Group for the Period was approximately RMB0.1 million (2019: approximately RMB2.0 million). The decrease in income tax expense was primarily attributable to the Group's decrease in revenue during the Period.

Profit for the Period

The profit for the Period decreased by approximately RMB3.2 million or approximately 97.0% from approximately RMB3.3 million for the six months ended 30 June 2019 to approximately RMB0.1 million for the six months ended 30 June 2020. The decrease in profit for the Period was mainly attributable to the decrease in revenue for the Period, as compared to that for the Previous Period.

Net Profit Margin

The net profit margin was approximately 0.3% for the six months ended 30 June 2020, compared to that of approximately 3.7% for the six months ended 30 June 2019. The decrease was mainly due to the decrease in revenue for the Period, as compared to that for the Previous Period.

Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: 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 2020:

Business strategies as set out in the Prospectus	Actual business progress up to 30 June 2020
— Expanding the production capacity	The Group has purchased 86 additional machineries for LED bead encapsulation.
— Developing the Group's sales channels	The Group has recruited 5 sales and marketing staff and in the process of exploring PRC and overseas markets.
— Reduction of the gearing ratio	The Group has fully repaid all bank loans in 2017 and successfully reduced the gearing ratio for the years ended 31 December 2017 and 2018. The Group's total drawn down from the banking facilities as at 30 June 2020 was RMB7.0 million. The gearing ratio as at 30 June 2020 was approximately 4.2%

One of the key risks and uncertainties facing the Group is the reliance on downstream LED lighting industry. During the Period, many downstream customers experienced sales downturn and reduced purchases from the Group as a result of the Pandemic. In response to this, the Group will continuously strive to broaden the client base.

Use of Proceeds

Based on the placing price of HK\$0.63 per share, the net proceeds from the Listing, 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 2020, the Group’s planned application and actual utilisation of the net proceeds is set out below:

Use of proceeds				Expected timeline for utilising the unutilised proceeds ^(Note)
	Net proceeds HK\$ million	Utilised HK\$ million	Unutilised HK\$ million	
Expansion of the Group’s production capacity	21.7	21.7	—	N/A
Developing the Group’s sales channels	0.8	0.7	0.1	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
	<u>37.4</u>	<u>37.3</u>	<u>0.1</u>	

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.

Liquidity, Financial Resources and Capital Structure

For the six months ended 30 June 2020, the Group recorded net cash flows used in the operating activities of approximately RMB29.8 million as compared to the net cash flows used in the operating activities of approximately RMB5.5 million for the six months ended 30 June 2019, primarily due to the greater decrease in trade payables and other payables during the six months ended 30 June 2020, as compared to the smaller decrease in trade payables and other payables in the corresponding period in 2019.

As at 30 June 2020, the Group had net current assets of approximately RMB136.2 million (31 December 2019: approximately RMB135.8 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 2020 was approximately 5.0 (31 December 2019: approximately 2.8). The increase was primarily due to the decrease in trade payables and other payables during the six months ended 30 June 2020.

As at 30 June 2020, the Group had total cash and bank balances of approximately RMB2.2 million (31 December 2019: approximately RMB30.3 million). The decrease in total cash and bank balances was mainly due to the net cash flows used in operating activities at the amount of approximately RMB29.8 million.

As at 30 June 2020, the total available banking facilities of the Group was RMB10.0 million (31 December 2019: RMB15 million). The total drawn down from the banking facilities as at 30 June 2020 was RMB7.0 million (31 December 2019: approximately RMB12.9 million).

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 30 December 2016 and the listing of the Company's shares has been transferred from the GEM to the Main Board of the Stock Exchange since 13 November 2019. There has been no change in the capital structure of the Company since 30 December 2016. The capital of the Company comprises only ordinary shares. As at 30 June 2020, the equity attributable to owners of the Company amounted to approximately RMB167.7 million (31 December 2019: approximately RMB167.6 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 2020 was approximately 4.2% (31 December 2019: approximately 7.7%).

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 2020, 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 the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity/Nature of interest	Number of issued ordinary shares interested	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 2020, 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 the Model Code.

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

As at 30 June 2020, 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 interested	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 2020, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

Share Option Scheme

The share option scheme was adopted by the shareholders of the Company and was effective on 2 December 2016 (the “**Share Option Scheme**”). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 30 June 2020, 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 2020, 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 16 to the condensed consolidated financial statements of this announcement.

The Transactions falls under the definition of “connected transactions” or “continuing connected transactions” under Chapter 14A of the Listing Rules, but are fully exempted from shareholders’ approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Significant Investments

As at 30 June 2020, there was no significant investment held by the Group.

Material Acquisitions and Disposals

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

Capital Commitments

As at 30 June 2020, the Group did not have any capital commitments for the acquisition of property, plant and equipment (31 December 2019: nil).

Charge on the Group’s assets

As at 30 June 2020, the Group pledged the following assets for the issuance of bank acceptance bills by the Group:

- (i) bills receivables of approximately RMB1.9 million (31 December 2019: nil); and
- (ii) financial assets at fair value through profit or loss of approximately RMB2.2 million (31 December 2019: approximately RMB13.2 million).

In addition, as at 30 June 2020, charges were created over the right-of-use assets of approximately RMB1.6 million under a lease arrangement (31 December 2019: approximately RMB2.4 million).

Contingent Liabilities

As at 30 June 2020, 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 2020, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 30 June 2020, the Group employed 127 employees (31 December 2019: 156 employees). Employee costs (including Directors' remuneration, wages, salaries and other benefits and contribution to defined contribution pension plans) amounted to approximately RMB4.2 million for the six months ended 30 June 2020 (2019: approximately RMB4.2 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 performance of the Company and the employees.

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 the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the “**Required Standard of Dealings**”). The Company had also made specific enquiry of all the Directors and the Company is 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 2020.

Corporate Governance and Compliance with the Corporate Governance Code

The Company adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Save for the Code 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 2020.

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

Disclosure of Change of Information of Director under Rules 13.51B(1) of the Listing Rules

Mr. Chan Chung Kik, Lewis, has resigned as the chief financial officer and the joint company secretary of Denox Environmental & Technology Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1452), since 1 June 2020.

Saved as disclosed above, there is no change in the information of each Director that is required to be disclosed under Rules 13.51B(1) of the Listing Rules, since the publication of annual report for the year ended 31 December 2019.

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 Listing Rules.

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

Hong Kong, 28 August 2020

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, Mr. Wu Wing Kuen, B.B.S. and Mr. Chan Chung Kik, Lewis.

* *For identification purpose only*