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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)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

Year ended 31 December (RMB'000)	2020	2019	Percentage Change
Revenue	121,995	243,260	−49.8%
Cost of sales	(95,624)	(182,996)	−47.7%
Gross profit	26,371	60,264	−56.2%
Profit before income tax expense	6,394	23,078	−72.3%
Net profit	4,563	17,278	−73.5%
Earnings per share (RMB)	0.0114	0.0432	−73.6%
Total assets	220,575	246,096	−10.4%
Total equity	172,157	167,596	2.7%
Key Financial Ratios			
Gross profit margin (%)	21.6	24.8	
Net profit margin (%)	3.7	7.1	
Return on equity (%)	2.7	10.3	
Return on assets (%)	2.1	7.0	
Current ratio	3.9	2.8	
Gearing ratio (%)	7.6	7.7	

ANNUAL RESULTS

The board (the “**Board**”) of Directors (the “**Directors**”) of HongGuang Lighting Holdings Company Limited (the “**Company**”) hereby announces the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 RMB’000	2019 RMB’000
Revenue	5	121,995	243,260
Cost of sales		<u>(95,624)</u>	<u>(182,996)</u>
Gross profit		26,371	60,264
Other income and gains	5	2,428	832
Selling and distribution expenses		(1,877)	(1,960)
Administrative and other expenses		(16,823)	(34,014)
Provision on expected credit losses on trade and bills receivables		(2,926)	(1,588)
Finance costs	7	<u>(779)</u>	<u>(456)</u>
Profit before income tax expense	6	6,394	23,078
Income tax expense	8	<u>(1,831)</u>	<u>(5,800)</u>
Profit for the year attributable to owners of the Company		<u>4,563</u>	<u>17,278</u>
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		<u>(2)</u>	<u>108</u>
Total comprehensive income for the year attributable to owners of the Company		<u>4,561</u>	<u>17,386</u>
Earnings per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	9	<u>1.14</u>	<u>4.32</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		33,591	31,951
Intangible assets		898	1,580
Prepayments and deposits	12	653	195
Deferred tax assets		1,835	198
		36,977	33,924
Current assets			
Inventories		38,413	23,387
Trade and bills receivables	11	114,421	137,180
Prepayments, deposits and other receivables	12	19,360	8,130
Financial assets at fair value through profit or loss		2,230	13,190
Bank balances and cash		9,174	30,285
		183,598	212,172
Current liabilities			
Trade and bills payables	13	22,794	45,648
Other payables and accruals		5,806	14,794
Bank borrowings	14	13,000	12,850
Lease liabilities		1,028	1,858
Current tax liabilities		4,663	1,195
		47,291	76,345
Net current assets		136,307	135,827
Non-current liabilities			
Lease liabilities		1,127	2,155
		1,127	2,155
Net assets		172,157	167,596
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	3,580	3,580
Reserves		168,577	164,016
Total equity		172,157	167,596

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL AND CORPORATE INFORMATION

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 Windward 3, Regatta Office Park, P.O. Box 1350, 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.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new/revised HKFRSs — effective 1 January 2020

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of a Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

None of these new or amended HKFRSs has a material impact on the Group’s results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ¹
Annual Improvements	Annual Improvement of HKFRS standard 2018–2020 ²
Amendments to HKAS 16	Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁴
HK Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴
HKFRS 17	Insurance Contracts ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵

- ¹ Effective for annual periods beginning on or after 1 January 2021.
- ² Effective for annual periods beginning on or after 1 January 2022.
- ³ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.
- ⁴ Effective for annual periods beginning on or after 1 January 2023.
- ⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform — Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “Reform”). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Annual Improvements to HKFRSs 2018–2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to HKFRSs.
- HKFRS 9, Financial Instruments, which clarify the fees included in the ‘10 per cent’ test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other’s behalf are included.
- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing whether the application of the amendments will have any material impact on the Group's consolidated financial statements.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

HKFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Company do not anticipate that the application of this standard in the future will have an impact on the financial statements.

Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transaction arise.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for the financial assets at fair value through profit or loss, which are measured at fair value as explained in the accounting policies below.

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

4. SEGMENT INFORMATION

The chief operating decision makers are identified as executive directors of the Company. The Group has identified its operating segment based on the regular internal financial information reported to the Company's Executive Directors for their decisions about resources allocation and review of performance. The Executive Directors have considered the only operating segment of the Group is design, development, manufacturing, subcontracting service and sales of LED beads and LED lighting products.

No geographical information is presented as most of the Group's operations are located in the PRC.

Revenue from customers who contributed over 10% of the Group's revenue for the corresponding years are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Client A	N/A*	43,905
Client B	N/A*	43,622
Client C	21,596	N/A*
Client D	19,495	N/A*
Client E	17,166	N/A*
Client F	<u>15,693</u>	<u>N/A*</u>

* Revenue did not contribute over 10% of the Group's revenue for the corresponding years.

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

The sales contract terms do not allow rebate, discount, warranties and return on revenue. During the years ended 31 December 2020 and 2019, there were no rebate, discount, warranties and return on revenue.

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

	2020 RMB'000	2019 <i>RMB'000</i>
Revenue recognised at a particular point in time		
Sales of LED beads	121,081	234,980
Sales of LED lighting products	—	6,299
Revenue recognised overtime		
Subcontracting service	<u>914</u>	<u>1,981</u>
	<u>121,995</u>	<u>243,260</u>
Other income and gains		
Bank interest income	301	660
Government grants (<i>Note</i>)	<u>2,127</u>	<u>172</u>
	<u>2,428</u>	<u>832</u>

Note: The amount represents the government subsidy received for the Group's technology advancement with no condition during the year.

The following table provides information about trade and bills receivables after expected credit losses ("ECLs") from contracts with customers.

	2020 RMB'000	2019 <i>RMB'000</i>
Receivables	<u>114,421</u>	<u>137,180</u>

6. PROFIT BEFORE INCOME TAX EXPENSE

The Group's profit before income tax expense is arrived at after charging/(crediting):

	2020 RMB'000	2019 RMB'000
Cost of inventories sold	83,192	170,693
Depreciation charge:		
— Owned property, plant and equipment	4,611	3,826
— Right-of-use-assets included within:		
— Property	325	325
— Machinery	1,449	483
Amortisation of intangible assets, included in cost of sales	682	682
Auditor's remuneration	824	875
Research and development costs, included in administrative and other expenses	8,335	14,046
Employee costs (including Directors' remuneration)		
— Wages, salaries and other benefits	8,014	7,878
— Contribution to defined contribution pension plans	581	1,267
Listing expenses (<i>note</i>)	—	9,055
Exchange gain, net	—	(39)

Note: During the year ended 31 December 2019, the listing expenses are expenses related to the board transfer from GEM to Main Board of the Stock Exchange for the Group's listed shares.

7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	600	309
Interest on lease liabilities	179	147
	<u>779</u>	<u>456</u>

8. 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 operate.

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 years ended 31 December 2020 and 2019. For the year ended 31 December 2020, the first HK\$2,000,000 of profits earned by one of the group companies will be taxed at a rate of 8.25% whilst the remaining profits will continue to be taxed at 16.5%. No provision for Hong Kong profits tax has been made as the Group's Hong Kong subsidiary had no estimated assessable profits for the year (2019: Nil).

In 2017, the Group's wholly-owned subsidiary, Zhuhai HongGuang Semiconductor Company Limited ("Zhuhai HongGuang"), previously known as Zhuhai HongGuang Lighting Fixture Company Limited, was awarded a "New and High Technology Enterprise Certificate" (the "Certificate") (高新技術企業證書). The Certificate has to be renewed over three years. In 2019, the Group has successfully renewed the Certificate for three years commencing from 1 January 2019. Pursuant to the relevant PRC enterprise income tax law, regulations and implementation guidance notes, Zhuhai HongGuang is entitled to a tax preference with a reduction of the enterprise income tax ("EIT") rate from 25% to 15% for the years ended 31 December 2020 and 2019.

	2020 RMB'000	2019 RMB'000
Current income tax — PRC EIT		
— tax for the year	3,468	5,532
Deferred tax	<u>(1,637)</u>	<u>268</u>
	<u>1,831</u>	<u>5,800</u>

9. EARNINGS PER SHARE

The basic earnings per share for the year is calculated based on the profit attributable to owners of the Company of RMB4,563,000 (2019: RMB17,278,000), and the weighted average number of ordinary shares of 400,000,000 issued during the year ended 31 December 2020 (2019: 400,000,000). The Company did not have any potential dilutive shares for the years ended 31 December 2020 and 2019. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

10. DIVIDEND

No dividend has been paid or declared by the Company for the years ended 31 December 2020 and 2019.

11. TRADE AND BILLS RECEIVABLES

The information about trade and bills receivables after ECLs are as follows:

	2020 RMB'000	2019 RMB'000
Trade receivables	111,615	132,153
Bills receivable	<u>2,806</u>	<u>5,027</u>
	<u>114,421</u>	<u>137,180</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days to 90 days, extending up to 120 days for major customers. The Group seeks to maintain control over its outstanding receivables and overdue balances which are reviewed regularly by senior management.

Included in trade and bills receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 30 days	34,877	46,261
31 to 60 days	11,706	23,005
61 to 90 days	9,672	20,968
91 to 120 days	14,616	14,246
121 to 365 days	19,753	33,334
Over 1 year	30,227	2,870
	120,851	140,684
Less: Impairment of trade and bills receivables	(6,430)	(3,504)
	114,421	137,180

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other receivables	73	218
Prepayments and deposits (<i>note</i>)	19,940	8,107
	20,013	8,325
Less: non-current portion		
Prepayments and deposits for acquisition of property, plant and equipment	(653)	(195)
Current portion	19,360	8,130

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

Note: The amount includes the prepayment to the independent third parties suppliers amounted to approximately RMB17,999,000 (2019: RMB7,633,000) for purchase of raw material.

13. TRADE AND BILLS PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	22,126	33,314
Bills payable	<u>668</u>	<u>12,334</u>
	<u>22,794</u>	<u>45,648</u>

The credit period granted from suppliers normally ranges from 0 to 120 days. The aging analysis of trade and bills payables, based on invoice date, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 30 days	13,407	12,748
31 to 60 days	4,064	8,693
61 to 90 days	2,779	10,140
91 to 120 days	1,764	4,786
121 to 365 days	672	9,076
Over 1 year	<u>108</u>	<u>205</u>
	<u>22,794</u>	<u>45,648</u>

14. BANK BORROWINGS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Unsecured interest-bearing bank borrowings:		
— Repayable on demand or within one year from the reporting date	<u>13,000</u>	<u>12,850</u>

As at 31 December 2020, the effective interest rates of the unsecured interest-bearing bank borrowings were ranging from 3.80% to 4.55% (2019: from 4.35% to 5.17%) per annum.

15. SHARE CAPITAL

	<i>Number of ordinary shares</i>	<i>RMB'000</i>
Issued and fully paid:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>400,000,000</u>	<u>3,580</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Board hereby presents the annual results of the Group for the year ended 31 December 2020 (the “**Year**” or “**2020**”), together with the comparative figures for the corresponding year ended 31 December 2019 (the “**Previous Year**” or “**2019**”).

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 PRC. During the Year, the Group mainly generated 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 RMB243.3 million for the year ended 31 December 2019 to approximately RMB122.0 million for the year ended 31 December 2020. The significant decrease in revenue during the Year was primarily attributable to the adverse impact of the COVID-19 pandemic (the “**Pandemic**”), which led to the suppressed demand and delayed procurement plans from certain customers of the Group.

Profit for the year ended 31 December 2020 amounted to approximately RMB4.6 million (approximately RMB17.3 million for the year ended 31 December 2019), which represents a decrease of approximately RMB12.7 million or approximately 73.4% as compared to the Previous Year. Such decrease was mainly attributable to the substantial decrease in the Group’s revenue from the sales of LED beads and LED lighting products in the PRC.

Due to the outbreak of the Pandemic, business operations at the Group’s wholly-owned subsidiary, Zhuhai HongGuang, 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 in 2020.

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.

Although the PRC has been able to show a progressive recovery of demand and production in the second half of 2020, the repercussions of the Pandemic continued to negatively impacted the business performance of the Group. Customers of the Group remained conservative in terms of their amounts of purchases with the Group due to the uncertainties associated with the prolonged Pandemic.

In response to the uncertainties prompted by the Pandemic, the Group has been exploring opportunities to diversify its risks of business. On 24 February 2021, the Company entered into a Sale and Purchase Agreement (the “**SPA**”) to acquire the GSR GO Holding Corporation (the “**GSR GO**”) together with its subsidiary (the “**GSR GO Group**”) by way of the issuance of consideration shares. The GSR GO Group is principally engaged in the research and development of fast charging solutions for battery system. It is expected that fast charging battery solution will be a preferred choice by the fast growing food delivery industry in the PRC and there will be steady growing demand for electric bicycle battery systems in the PRC. The acquisition of the GSR GO Group will serve as an extension of the Group’s business to mitigate the adverse impact of the outbreak of the Pandemic on the current business of the Group while bringing in potential investment opportunities which increase values of the Group’s shareholders. As at the date of this announcement, the acquisition is pending completion under the SPA.

Moreover, the Group recognises the immense value of research and development to increase resiliency when faced with the unprecedented effects of the Pandemic and therefore continues to dedicate efforts on research and development. During the Year, the Group has successfully submitted applications for the registration of 6 patents in the PRC and the registration of one patent was further granted to Zhuhai HongGuang. As at 31 December 2020, the Group was the registered proprietor of 28 patents in the PRC.

As at the date of this announcement, the management of the Company cannot ascertain the extent to which the Group’s operations will continue to be impacted by the Pandemic, which largely depends on future developments that cannot be accurately predicted, such as the resurgences and further spread of the Pandemic and the actions by Government authorities, the economic recovery within China, the impact on consumer behaviour and other related factors. We expect that further developments related to the Pandemic may continue to have an extended adverse impact on the Company’s results of operations and financial condition. The Company will continue to monitor the market situation and strive to mitigate any adverse impact it may face to the best of its ability.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, total revenue was approximately RMB122.0 million, representing a decrease of approximately 49.9% as compared with the Previous Year (2019: approximately RMB243.3 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:

	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
LED beads	121,081	99.3	234,980	96.6
LED lighting products	—	—	6,299	2.6
Subcontracting service	914	0.7	1,981	0.8
Total	<u>121,995</u>	<u>100.0</u>	<u>243,260</u>	<u>100.0</u>

For the year ended 31 December 2020, revenue from LED beads amounted to approximately RMB121.1 million (2019: approximately RMB235.0 million), accounting for approximately 99.3% of the total revenue (2019: approximately 96.6%). The decrease in revenue was mainly due to the decrease in the sales volume during the Year, 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 Year was nil (2019: approximately RMB6.3 million).

Revenue from subcontracting service during the Year amounted to approximately RMB0.9 million (2019: approximately RMB2.0 million), representing approximately 0.7% of the total revenue (2019: approximately 0.8%).

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 47.8% from approximately RMB183.0 million for the Previous Year to approximately RMB95.6 million for the Year, 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 RMB60.3 million for the Previous Year to approximately RMB26.4 million for the Year. The gross profit margin decreased from approximately 24.8% for the Previous Year to approximately 21.6% for the Year. The following table sets forth a breakdown of the gross profit and gross profit margin by segment for the periods indicated:

	Year ended 31 December 2020		Year ended 31 December 2019	
	Gross profit	Gross profit	Gross profit	Gross profit
	RMB'000	margin %	RMB'000	margin %
LED beads	25,457	21.0	55,202	23.5
LED lighting products	—	—	3,081	48.9
Subcontracting service	914	N/A ^(Note)	1,981	N/A ^(Note)
Total gross profit/gross profit margin	<u>26,371</u>	<u>21.6</u>	<u>60,264</u>	<u>24.8</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 23.5% for the Previous Year to approximately 21.0% for the Year. 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 200.0% from approximately RMB0.8 million for the Previous Year to approximately RMB2.4 million for the Year, which was mainly due to the increase in Government grants from the PRC Government during the Year.

Selling and Distribution Expenses

The selling and distribution expenses decreased by approximately 5.0% from approximately RMB2.0 million for the Previous Year to approximately RMB1.9 million for the Year. The selling and distribution expenses mainly comprised of staff costs, traveling expenses and entertainment expenses. The decrease in selling and distribution expenses was mainly attributable to the decrease in traveling expenses during the Year.

Administrative and Other Expenses

The Group's administrative and other expenses decreased by approximately 50.6% from approximately RMB34.0 million for the Previous Year to approximately RMB16.8 million for the Year. 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 (i) 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 Year; and (ii) the decrease in research and development costs during the Year. 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 RMB9.1 million for the Previous Year. The research and development costs were approximately RMB8.3 million for the Year (Previous Year: approximately RMB14.0 million)

Finance Costs

The Group's finance costs was approximately RMB0.8 million for the Year (2019: approximately RMB0.5 million). The increase in finance costs was mainly attributable to the increased average drawn down from the banking facilities for the Year, as compared to that for the Previous Year.

Income Tax Expense

Income tax expense of the Group for the Year was approximately RMB1.8 million (2019: approximately RMB5.8 million). The decrease in income tax expense was primarily attributable to the Group's decrease in taxable profit during the Year.

Profit for the Year

The profit for the Year decreased by approximately RMB12.7 million or approximately 73.4% from approximately RMB17.3 million for the Previous Year to approximately RMB4.6 million for the Year. The decrease in profit for the Year was mainly attributable to the decrease in revenue for the Year, as compared to that for the Previous Year.

Net Profit Margin

The net profit margin was approximately 3.7% for the Year, compared to that of 7.1% for the Previous Year. The decrease was mainly due to the decrease in revenue for the Year, as compared to that for the Previous Period.

Dividend

The Directors do not recommend the payment of a final dividend for the Year (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 31 December 2020:

Business strategies as set out in the Prospectus

Actual business progress up to 31 December 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 is in the process of exploring the PRC and overseas markets. |
| — Reduction of the gearing ratio | <p>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.</p> <p>The Group's total drawn down from the banking facilities as at 31 December 2020 was RMB13.0 million. The gearing ratio as at 31 December 2020 was approximately 7.6%.</p> |

One of the key risks and uncertainties facing the Group is the reliance on downstream LED lighting industry. During the Year, many downstream customers experienced sales downturn, hence 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 Company's listing on the GEM on 30 December 2016 (the "**Listing**"), after deducting the underwriting commission and other estimated expenses, amounted to approximately HK\$37.4 million. The Group has applied 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 31 December 2020, the Group's application and actual utilisation of the net proceeds is set out below:

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

The net proceeds of approximately HK\$37.4 million have been fully utilised as at 31 December 2020.

Liquidity, Financial Resources and Capital Structure

For the Year, the amount of net cash used by the Group in its operating activities was approximately RMB21.9 million as compared to that of approximately RMB14.1 million for the Previous Year, primarily due to the decrease in trade and bills payables, other payables and accruals during the Year, as compared to the increase in trade and bills payables, other payables and accruals in the corresponding period in 2019.

As at 31 December 2020, the Group had net current assets of approximately RMB136.3 million (2019: approximately RMB 135.8 million). The Group's current ratio as at 31 December 2020 was approximately 3.9 times (2019: approximately 2.8 times).

As at 31 December 2020, the Group had total cash and bank balances of approximately RMB9.2 million (2019: approximately RMB30.3 million). The decrease in total cash and bank balances was mainly due to the application of approximately RMB21.9 million in the operating activities during the Year.

As at 31 December 2020, the total available banking facilities of the Group were RMB13.0 million (31 December 2019: RMB15.0 million). The total drawn down of the banking facilities as at 31 December 2020 was RMB13.0 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. The share capital of the Company comprises only ordinary shares. As at 31 December 2020, the equity attributable to owners of the Company amounted to approximately RMB172.2 million (2019: approximately RMB167.6 million).

Return on Equity

Return on equity (i.e. net profit for the year divided by total equity of the year and multiplied by 100%) decreased from approximately 10.3% for the Previous Year to approximately 2.7% for the Year. Such decrease was mainly attributable to the decrease in net profit as a result of the decrease in revenue during the Year.

Return on Assets

Return on assets (i.e. net profit for the year divided by total assets of the year and multiplied by 100%) decreased from approximately 7.0% for the Previous Year to approximately 2.1% for the Year. Such decrease was mainly attributable to the decrease in net profit as a result of the decrease revenue during the Year.

Current Ratio

Current ratio (i.e. total current assets at the end of the year divided by total current liabilities at the end of the year) increased from approximately 2.8 times as at 31 December 2019 to approximately 3.9 times as at 31 December 2020, primarily due to the decrease in trade and bills payables, other payables and accruals for the year ended 31 December 2020.

Gearing Ratio

The Group's gearing ratio (i.e. total debt at the end of the year divided by total equity at the end of the year and multiplied by 100%) as at 31 December 2020 was approximately 7.6% (31 December 2019: approximately 7.7%).

Significant Investments

As at 31 December 2020, there was no significant investment held by the Group (2019: nil).

Material Acquisitions and Disposals

The Group did not carry out any material acquisition nor disposal of any subsidiary during the year ended 31 December 2020.

Capital Commitments

As at 31 December 2020, the Group had capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to approximately RMB0.4 million (2019: nil).

Charge on the Group's assets

As at 31 December 2020, the Group pledged the following assets for the issuance of bank acceptance bills by the Group:

- (i) bills receivables of approximately RMB0.7 million (31 December 2019: nil); and
- (ii) financial assets at fair value through profit or loss of nil (31 December 2019: approximately RMB13.2 million).

In addition, as at 31 December 2020, charges were created over the right-of-use assets of approximately RMB0.9 million under a lease arrangement (31 December 2019: approximately RMB2.4 million).

Contingent Liabilities

As at 31 December 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 year ended 31 December 2020, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 31 December 2020, the Group employed 143 employees (31 December 2019: 156 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB8.6 million for the year ended 31 December 2020 (2019: approximately RMB9.1 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that the employees' overall remuneration is determined based on the performance of the Company and the employees.

* *For identification purpose only*

Events after the Reporting Period

Except as disclosed elsewhere in this announcement, the Group has the following subsequent events undertaken by the Company or by the Group after 31 December 2020:

On 24 February 2021, the Company entered into a Sales and Purchase Agreement (the “**SPA**”) with independent third parties, to acquire GSR GO Holding Corporation (the “**GSR GO**”) together with its subsidiaries (the “**GSR GO Group**”), at a total consideration of HK\$76,800,000 involving issue of consideration shares at the issue price of HK\$0.96 per consideration share. The GSR GO Group is principally engaged in the research and development of fast charging solutions for battery system. Upon completion under the SPA, GSR GO will become a wholly-owned subsidiary of the Company.

The details of the aforesaid transaction are set out in the Company’s announcement dated 25 February 2021. As at the date of this announcement, the acquisition is pending completion under the SPA.

Purchase, Sales or Redemption of the Company’s Listed Securities

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

Model Code for Securities Transactions by Directors

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**”). Upon specific enquiries being made with all Directors, each of them confirmed that they have complied with the Required Standard of Dealings regarding securities transactions by the Directors for the year ended 31 December 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 provision A.2.1 of the CG Code, the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2020.

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should separate and should not be performed by the same individual. Mr. Zhao Yi Wen is both the chairman of the Board and the chief executive officer of the Company. In view of Mr. Zhao Yi Wen 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 Yi Wen taking up both roles for effective management and business development.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the members' entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 28 May 2021, the register of members will be closed from Monday, 24 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of shares can be registered. In order to be eligible to attend and vote at the meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Friday, 21 May 2021.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company (the "**Audit Committee**") has discussed and reviewed with management and the Group's auditor, BDO Limited, the annual consolidated financial statements of the Group for the year ended 31 December 2020. 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.

REVIEW OF THIS FINAL RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

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

Hong Kong, 29 March 2021

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.