

# Luen Wong Group Holdings Limited

## 聯旺集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8217

*Third Quarterly Report*  
**2017**



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

## RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 31 December 2017 together with the unaudited comparative figures for the corresponding periods of 2016.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

For the three months and nine months ended 31 December 2017

	Note	Three months ended 31 December		Nine months ended 31 December	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
<b>Revenue</b>	3	<b>206,982</b>	218,503	<b>592,820</b>	507,181
Cost of sales		<b>(213,181)</b>	(197,618)	<b>(567,461)</b>	(467,387)
<b>Gross (loss)/profit</b>		<b>(6,199)</b>	20,885	<b>25,359</b>	39,794
Other (expense)/income, net		<b>(33)</b>	72	<b>244</b>	462
Administrative and other operating expenses		<b>(1,773)</b>	(4,136)	<b>(10,905)</b>	(12,892)
<b>(Loss)/profit from operations</b>		<b>(8,005)</b>	16,821	<b>14,698</b>	27,364
Finance costs		<b>(16)</b>	(86)	<b>(238)</b>	(325)
<b>(Loss)/profit before income tax</b>		<b>(8,021)</b>	16,735	<b>14,460</b>	27,039
Income tax credit/(expense)	4	<b>1,188</b>	(2,845)	<b>(2,736)</b>	(5,369)
<b>(Loss)/profit for the period</b>		<b>(6,833)</b>	13,890	<b>11,724</b>	21,670
<b>Other comprehensive expense</b>					
Item that will be reclassified subsequently to profit or loss:					
Change in fair value of investment in a life insurance policy		–	–	–	(434)
<b>Total comprehensive (expense)/income for the period attributable to equity holders of the Company</b>		<b>(6,833)</b>	13,890	<b>11,724</b>	21,236
		<b>HK cents</b>	HK cents	<b>HK cents</b>	HK cents
<b>(Loss)/earnings per share attributable to equity holders of the Company</b>					
Basic and diluted	6	<b>(0.55)</b>	1.11	<b>0.94</b>	1.75

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

For the nine months ended 31 December 2017

	Total equity attributable to equity holders of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
Balance as at 1 April 2016	-	-	-	10,400	3,820	12,875	27,095
Issuance of ordinary shares pursuant to the Placing	2,080	52,000	-	-	-	-	54,080
Issuance of ordinary shares pursuant to the Capitalisation Issue	10,400	(10,400)	-	-	-	-	-
Expenses incurred in connection with the issuance of ordinary shares	-	(4,928)	-	-	-	-	(4,928)
Transactions with equity holders	12,480	36,672	-	-	-	-	49,152
Profit for the period	-	-	-	-	-	21,670	21,670
Other comprehensive expense: Change in fair value of investment in a life insurance policy	-	-	(434)	-	-	-	(434)
Total comprehensive income	-	-	(434)	-	-	21,670	21,236
Balance as at 31 December 2016 (unaudited)	12,480	36,672	(434)	10,400	3,820	34,545	97,483
Balance as at 1 April 2017	<b>12,480</b>	<b>36,672</b>	<b>(435)</b>	<b>10,400</b>	<b>3,820</b>	<b>43,424</b>	<b>106,361</b>
Profit and total comprehensive income for the period	-	-	-	-	-	11,724	11,724
<b>Balance as at 31 December 2017 (unaudited)</b>	<b>12,480</b>	<b>36,672</b>	<b>(435)</b>	<b>10,400</b>	<b>3,820</b>	<b>55,148</b>	<b>118,085</b>

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 16 October 2015. The address of the Company's registered office and principal place of business are P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and Unit 1505, 15/F, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong respectively.

The Company is an investment holding company and the Group are principally engaged in the provision of civil engineering works and investment holding.

The Company's shares are listed on the GEM of the Stock Exchange on 12 April 2016.

### 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the three months and nine months ended 31 December 2017 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 March 2017. The accounting policies used in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 March 2017.

As at the date of authorisation of these unaudited condensed consolidated financial statements, HKICPA has issued a number of new and amended HKFRSs. For those which are effective for accounting period beginning on 1 April 2017, the adoption of these new and amended HKFRSs had no material impact on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. The Group has not early adopted any new and amended HKFRSs that are relevant to the Group have been issued but are not yet effective for the current accounting period.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for available-for-sale financial asset which is stated at fair value.

The unaudited condensed consolidated financial statements are presented in Hong Kong Dollars ("HK\$"), which is the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands ("HK\$'000"), except when otherwise indicated.

The preparation of the unaudited condensed consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the accounting policies of the Group.

The unaudited condensed consolidated financial statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

### 3. REVENUE

Revenue represents the consideration received and receivable from the provision of civil engineering works.

#### 4. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the three months and nine months ended 31 December 2017.

	Three months ended 31 December		Nine months ended 31 December	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
<b>Current tax</b>				
– Hong Kong profits tax	(1,007)	2,954	2,455	3,259
– Deferred tax	(181)	(109)	281	2,110
Income tax (credit)/expense	<b>(1,188)</b>	2,845	<b>2,736</b>	5,369

#### 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2017 and 2016.

#### 6. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share attributable to equity holders of the Company is based on the following:

	Three months ended 31 December		Nine months ended 31 December	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
<b>(Loss)/earnings</b>				
(Loss)/profit for the period attributable to equity holders of the Company	<b>(6,833)</b>	13,890	<b>11,724</b>	21,670
<b>Number of shares</b>				
Weighted average number of ordinary shares (in thousands)	<b>1,248,000</b>	1,248,000	<b>1,248,000</b>	1,240,436

The weighted average number of ordinary shares used to calculate the basic (loss)/earnings per share for the three months ended 31 December 2016, three months and nine months ended 31 December 2017 represents 1,248,000,000 shares in issue throughout the period.

The weighted average number of ordinary shares used to calculate the basic (loss)/earnings per share for the nine months ended 31 December 2016 include (i) 10,000 ordinary shares in issue throughout the period; and (ii) the 1,039,990,000 new ordinary shares issued pursuant to the Capitalisation Issue, as if all these shares had been in issue throughout the period, and (iii) 200,436,000 shares, representing the weighted average of 208,000,000 new ordinary shares issued pursuant to the Placing.

There were no dilutive potential ordinary shares during the periods ended 31 December 2017 and 2016 and therefore, diluted (loss)/earnings per share equals to the basic (loss)/earnings per share.

*Note:* On 11 April 2016, 208,000,000 shares of HK\$0.01 each of the Company were allotted and issued at a price of HK\$0.26 per share by way of placing (the "Placing").

Subject to the share premium account of the Company being credited as a result of the Placing, the Directors were authorized to allot and issue a total of 1,039,990,000 shares credited as fully paid at par to Blooming Union Investments Limited by way of capitalisation of the sum of HK\$10,399,900 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"). The Capitalisation Issue was completed on 12 April 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND OUTLOOK

The Group has over 18 years of experience in providing civil engineering works as a subcontractor in Hong Kong. The civil engineering works undertaken by the Group are mainly related to (i) roads and drainage works (including construction and improvement of local road, carriageway with junction improvement and the associated footpaths, planting areas, drains, sewers, water mains and utilities diversion); (ii) structural works (including construction of reinforced concrete structures for bridges and retaining walls); and (iii) site formation works (including excavation and/or filling works for forming a new site or achieving designed formation level for later development).

The coming years are expected to be full of opportunities and challenges. In the 2017-18 Budget Speech, the Government announced to spend an estimated HK\$89.1 billion on public infrastructure. The planned increase in the Government's public expenditure on infrastructure will result in more business opportunities being presented to the market. It was also announced that projects included the Hong Kong Boundary Crossing Facilities and Hong Kong Link Road are at its construction peaks and capital works expenditure is expected to remain at a relatively high level in the next few years. However, challenges like delaying in budget approval due to filibustering and shortage of manpower will continue to affect the civil engineering industry. As a subcontractor, factors including but not limited to difficult geological conditions, adverse weather conditions, variations to the construction plans instructed by customers and other unforeseen problems or circumstances that occur during project implementation continue being threats that likely affect the Group's profit.

Most of the projects on hand are expected to be completed in the early 2018, the Group is now actively participating in submitting tenders for new projects that start in 2018 to ensure that sustainable growth is maintained for the Group. Looking forward, the Group will continue to strengthen the competitive edge of the Group over the competitors in the civil engineering industry and at the same time carefully evaluate each projects and control the Group's overall costs to a reasonable level; which in turn is expected to increase shareholders' return.

### FINANCIAL REVIEW

#### Revenue

All of the Group's revenue was generated from the provision of civil engineering works. The total revenue of the Group increased by approximately HK\$85,639,000 from approximately HK\$507,181,000 for the nine months ended 31 December 2016 to approximately HK\$592,820,000 for the nine months ended 31 December 2017. Such increase was mainly due to the increase in construction works to speed up the progress for certain projects to meet completion deadlines. As at 31 December 2016, we had 23 contracts on hand with a total contract sum of approximately HK\$1,718,845,000 whilst as at 31 December 2017, we had 25 contracts on hand with a total contract sum of approximately HK\$1,770,661,000.

### **Gross Profit and Gross Profit Margin**

The Group's gross profit decreased significantly by approximately HK\$14,435,000 from approximately HK\$39,794,000 for the nine months ended 31 December 2016 to approximately HK\$25,359,000 for the nine months ended 31 December 2017. The Group's gross profit margin decreased from approximately 7.8% for the nine months ended 31 December 2016 to approximately 4.3% for the nine months ended 31 December 2017, representing a decrease of approximately 3.5 percentage points.

The gross profit margin varied substantially from project to project and is mainly attributable to the phrases of project and our pricing, which is determined based on a cost-plus pricing model in general with mark-up determined on a project-by-project basis, further details are set out in the paragraph headed "Gross Profit and Gross Profit Margin" in the section headed "Management Discussion and Analysis" in the Company's 2017 annual report dated 26 June 2017.

### **Other Income**

Other income of the Group decreased by approximately HK\$218,000 or 47.2% from approximately HK\$462,000 for the nine months ended 31 December 2016 to approximately HK\$244,000 for the nine months ended 31 December 2017.

### **Administrative and Other Operating Expenses**

Administrative and other operating expenses of the Group decreased by approximately HK\$1,987,000 or 15.4% from approximately HK\$12,892,000 for the nine months ended 31 December 2016 to approximately HK\$10,905,000 for the nine months ended 31 December 2017. Administrative and other operating expenses consist primarily of staff costs, depreciation, rental expenses, listing expenses and other administrative expenses. The decrease was mainly due to no listing expense has been incurred during the nine months ended 31 December 2017.

### **Finance Costs**

Finance costs for the Group slightly decreased by approximately HK\$87,000 or 26.8% from approximately HK\$325,000 for the nine months ended 31 December 2016 to approximately HK\$238,000 for the nine months ended 31 December 2017. Such decrease was mainly due to completion of repayment of certain finance lease liabilities.

### **Income Tax Expense**

Income tax expense for the Group had decreased by approximately HK\$2,633,000 from approximately HK\$5,369,000 for the nine months ended 31 December 2016 to approximately HK\$2,736,000 for the nine months ended 31 December 2017. Such decrease was in line with the decrease in profit before income tax during the nine months ended 31 December 2017.

### **Profit and Total Comprehensive Income for the Period Attributable to Equity Holders of the Company**

Profit and total comprehensive income for the period attributable to equity holders of the Company decreased by approximately HK\$9,512,000 from approximately HK\$21,236,000 for the nine months ended 31 December 2016 to approximately HK\$11,724,000 for the nine months ended 31 December 2017. Such decrease was primarily attributable to the net effect of the increase in cost of sales, decrease in gross profit, administrative and other operating expenses and income tax expense for the nine months ended 31 December 2017 as discussed above.



## DISCLOSURE OF INTERESTS

## A. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2017, interests or short positions of the Directors, chief executives of the Company in the shares (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

## (i) Long position in the Shares

Name of Directors	Capacity/Nature	Number of Shares held/ interested	Percentage of shareholding
Wong Che Kwo	Interest of a controlled corporation (Note)	327,030,000	26.20%
Wong Wing Wah	Interest of a controlled corporation (Note)	327,030,000	26.20%

Note: These shares are held by Blooming Union Investments Limited ("Blooming Union"), the entire issued share capital of which is legally and beneficially owned as to 50% by Mr. Wong Che Kwo and 50% by Mr. Wong Wing Wah. Therefore, Mr. Wong Che Kwo and Mr. Wong Wing Wah are deemed or taken to be interested in all the Shares held by Blooming Union for the purpose of the SFO.

## (ii) Long position in the ordinary shares of associated corporations

Name of Directors	Name of associated corporation	Capacity/Nature	Number of Shares held/ interested	Percentage of shareholding
Wong Che Kwo	Blooming Union	Beneficial owner	1	50%
Wong Wing Wah	Blooming Union	Beneficial owner	1	50%

Save as disclosed above, as at 31 December 2017, none of the Directors nor chief executive of the Company has registered an interest or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

## B. SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company), had interest or short position in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of Shareholder	Capacity/Nature	Number of Shares held/interested	Percentage of shareholding
Blooming Union	Beneficial owner	327,030,000	26.20%
Law Oi Ling	Interest of spouse ( <i>Note 1</i> )	327,030,000	26.20%
Lai Siu Kuen	Interest of spouse ( <i>Note 2</i> )	327,030,000	26.20%

Note:

- Ms. Law Oi Ling, the spouse of Mr. Wong Che Kwo, is deemed, or taken to be, interested in all Shares in which Mr. Wong Che Kwo is interested for the purpose of the SFO.
- Ms. Lai Siu Kuen, the spouse of Mr. Wong Wing Wah, is deemed, or taken to be, interested in all Shares in which Mr. Wong Wing Wah is interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2017 and so far as is known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## COMPETING INTERESTS

Save as disclosed below, the Directors confirm that none of the Controlling Shareholders or the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the nine months ended 31 December 2017 and up to the date of this report.

Name of Director	Name of entity which is considered to compete or likely to compete with the business of the Group	Description of business	Nature of interests
Mr. Liu Yan Chee James (resigned on 4 December 2017)	Asia Resources Holdings Limited (Stock code: 0899)	Principally engaged in iron mining business; securities and gold trading; and property investments	Executive director (appointed on 26 April 2017)

## INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Group has appointed TC Capital International Limited as our compliance adviser. Except for the compliance adviser agreement entered into between the Company and our compliance adviser dated on 31 March 2016, neither our compliance advisor nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31 December 2017.

## CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 15 of the GEM Listing Rules. The Directors consider that during the nine months ended 31 December 2017 and up to the date of this report, the Company has complied with all the applicable code provisions set out in the Code.

## CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors in respect of the shares of the Company (the "Code of Conduct"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct during the nine months ended 31 December 2017 and up to the date of this report.

## DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2017.

## DISCLOSURE PURSUANT TO RULE 17.20 AND 17.21 OF THE GEM LISTING RULES

### Breach of Loan Agreements

Reference is made to the announcement of the Company dated 11 July 2017 in relation to the then controlling shareholder (controlling shareholder refers to the meaning of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange) of the Company, Blooming Union, which is wholly owned by Mr. Wong Che Kwo and Mr. Wong Wing Wah, had disposed an aggregate of 324,700,000 shares on the open market, from 3 July 2017 to 7 July 2017, on the Stock Exchange (the "Disposal"). The shares disposed of represents approximately 26.02% of the issued share capital of the Company. Upon completion of the Disposal, Blooming Union held 611,300,000 shares of the Company, which represents approximately 48.98% of the issued share capital of the Company. The Disposal resulted in a breach of the following loan agreements:

- (i) loan agreement ("Loan agreement A") entered into between Luen Hing Construction & Eng. Limited ("Luen Hing"), which is an indirect wholly owned subsidiary of the Company and Hongkong and Shanghai Banking Corporation Limited in respect of granting various banking facility to Luen Hing including an invoice discounting/factoring facility of HK\$34,000,000 and a banking facility with a combined limit of HK\$10,000,000 (which consist of bank overdraft

facility of HK\$3,000,000 and/or a clean import loan of HK\$10,000,000 and/or advance to manufacturer against sales contract of HK\$10,000,000). The Group has failed to comply with the covenant whereby Mr. Wong Che Kwo's and Mr. Wong Wing Wah's ultimate joint ownership of the Company shall be not less than 75% of the total issued capital of the Company. As a result of the breach, no withdrawal can be made under Loan Agreement A. As at the date of this report, the Group has cancelled the facilities granted by Hongkong and Shanghai Banking Corporation Limited.

- (ii) loan agreement ("Loan Agreement B") entered into between Luen Hing and Bank of China (Hong Kong) Limited in respect of a general banking facility which includes an overdraft facility of HK\$6,000,000 and a term loan facility of HK\$5,585,000. The Group has failed to comply with the covenant whereby Mr. Wong Che Kwo's and Mr. Wong Wing Wah's ultimate joint ownership of the Company shall be maintained at no less than 51% of the total issued share capital of the Company. As a result of the breach, no withdrawal can be made under Loan Agreement B. As at the date of this report, the overdraft facility has been cancelled and the term loan has been settled.

The Group's cash flow position may be affected by failure to maintain the banking facilities mentioned above. Financial support from Blooming Union may be required from time to time to meet any cash shortfall. As at the date of this report, Blooming Union has injected HK\$10,000,000 into the Group. In the meantime, the Group will also approach other banks for other alternatives. The Board considers that the Group has sufficient working capital for its present requirements having considered the financial resources available to the Group.

#### **DISCLOSURE REQUIRED UNDER RULE 17.50(2) OF THE GEM LISTING RULES**

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of the Directors that need to be brought to the attention of the Shareholders and there was no information in relation to the Directors that is required to be disclosed pursuant to Rules 17.50(2) of the GEM Listing Rules as at the date of this report.

#### **SHARE OPTION SCHEME**

The share option scheme of the Company (the "Share Option Scheme") has been adopted by way of shareholder's written resolution passed on 24 March 2016. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 31 December 2017.

#### **INSUFFICIENT NUMBER OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

Upon the resignation of Mr. Liu with effect from 4 December 2017, (i) the number of Independent Non-Executive Directors will fall below the minimum number of three and does not represent one-third of the Board; (ii) the number of members of the Audit Committee will fall below the minimum number of three; and (iii) the requirements for the Remuneration Committee to comprise a majority of Independent Non-Executive Directors cannot be met.

In order to comply with Rules 5.05(1), 5.05A, 5.28 and 5.34 of the GEM Listing Rules, the Company will actively look for a suitable candidate to replace Mr. Liu within three months from 4 December 2017 pursuant to Rules 5.06, 5.33 and 5.36 of the GEM Listing Rules and will make further announcement(s) as and when appropriate.

## AUDIT COMMITTEE

Save as disclosed above, following the resignation of Liu with effect from 4 December 2017, the number of members of the Audit Committee falls below the minimum number required under Rule 5.28 of the GEM Listing Rules. An audit committee has been established with its terms of reference in compliance with Rules 5.29 to 5.33 and paragraphs C.3.3 and C.3.7 of the CG Code but failed with Rule 5.28 of the GEM Listing Rules. The audit committee consists of two members, namely Mr. Wong Chi Kan and Mr. Tai Hin Henry, all being independent non-executive Directors. Mr. Wong Chi Kan has been redesignated as a chairman of the audit committee with effect from 4 December 2017. The Board will appoint an appropriate person to fill the vacancy in the Audit Committee as soon as practicable within three months from 4 December 2017.

The committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of our Group, and as to the adequacy of the external and internal audits.

The audit committee has reviewed the unaudited consolidated financial statements of the Group for the nine months ended 31 December 2017 and is of the view that such results complied with the applicable accounting standards, principles and policies, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

By order of the Board  
**Wong Che Kwo**  
*Chairman and Executive Director*

Hong Kong, 14 February 2018

*As at the date of this report, the executive Directors are Mr. Wong Che Kwo (Chairman), Mr. Wong Wing Wah, Mr. Chiu Chi Wang, Mr. So Kwok Hung and Ms. Yu Xiao and the independent non-executive Directors are Mr. Wong Chi Kan and Mr. Tai Hin Henry.*

