

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 2018



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 GEM (the “GEM Listing Rules”) of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries (together, the “Group”). 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 aspects 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 2018 together with the unaudited comparative figures for the corresponding periods of 2017.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 31 December 2018

	Note	Three months ended 31 December		Nine months ended 31 December	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	3	112,184	206,982	360,757	592,820
Cost of sales		(114,776)	(213,181)	(358,116)	(567,461)
Gross (loss)/profit		(2,592)	(6,199)	2,641	25,359
Other income/(expense), net		2,270	(33)	15,886	244
Administrative and other operating expenses		(1,733)	(1,773)	(7,141)	(10,905)
(Loss)/profit from operations		(2,055)	(8,005)	11,386	14,698
Finance costs		(17)	(16)	(18)	(238)
(Loss)/profit before income tax		(2,072)	(8,021)	11,368	14,460
Income tax credit/(expense)	4	–	1,188	(2,255)	(2,736)
(Loss)/profit for the period		(2,072)	(6,833)	9,113	11,724
Other comprehensive expense					
Item that will be reclassified subsequently to profit or loss:					
Change in fair value of investment in a life insurance policy		–	–	–	–
Total comprehensive (expense)/income for the period attributable to equity holders of the Company		(2,072)	(6,833)	9,113	11,724
		HK cents	HK cents	HK cents	HK cents
(Loss)/earnings per share attributable to equity holders of the Company					
Basic and diluted	6	(0.17)	(0.55)	0.73	0.94



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 December 2018

	Total equity attributable to equity holders of the Company						Total equity HK\$'000
	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	
Balance as at 1 April 2017 (audited)	12,480	36,672	(435)	10,400	3,820	43,424	106,361
Profit and total comprehensive income for the period	-	-	-	-	-	11,724	11,724
Balance as at 31 December 2017 (unaudited)	12,480	36,672	(435)	10,400	3,820	55,148	118,085
Balance as at 1 April 2018 (audited)	12,480	36,672	(426)	10,400	3,820	40,532	103,478
Profit and total comprehensive income for the period	-	-	-	-	-	9,113	9,113
Balance as at 31 December 2018 (unaudited)	12,480	36,672	(426)	10,400	3,820	49,645	112,591



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 703A, 7/F, Gee Tuck Building, 16-20 Bonham Strand, Sheung Wan, 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 2018 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 2018. 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 2018.

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 2018, 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 2018 and 2017.

	Three months ended 31 December		Nine months ended 31 December	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Current tax				
– Hong Kong profits tax	–	(1,007)	252	2,455
– Deferred tax	–	(181)	2,003	281
Income tax (credit)/expense	–	(1,188)	2,255	2,736

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2018 and 2017.

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	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
(Loss)/earnings				
(Loss)/profit for the period attributable to equity holders of the Company	(2,072)	(6,833)	9,113	11,724
Number of shares				
Weighted average number of ordinary shares (in thousands)	1,248,000	1,248,000	1,248,000	1,248,000

The weighted average number of ordinary shares used to calculate the basic (loss)/earnings per share for the three months and nine months ended 31 December 2018 and 2017 represents 1,248,000,000 shares in issue throughout the period.

There were no dilutive potential ordinary shares during the periods ended 31 December 2018 and 2017 and therefore, diluted (loss)/earnings per share equals to the basic (loss)/earnings per share.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has over 19 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).

As at 31 December 2018, we had 38 contracts on hand with a total contract sum of approximately HK\$2,089,141,600. During the period, we have been awarded 5 new contracts with a total contract sum of approximately HK\$56,951,600.

OUTLOOK

2019 is expected to be full of opportunities and challenges. The planned commitment in the Government's public expenditure on infrastructure will result in more business opportunities being presented to the market. Whilst 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 as a subcontractor.

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 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 decreased by approximately HK\$232,063,000 from approximately HK\$592,820,000 for the nine months ended 31 December 2017 to approximately HK\$360,757,000 for the nine months ended 31 December 2018. Such decrease was mainly due to few large construction projects reaching completion stage.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased significantly by approximately HK\$22,718,000 from approximately HK\$25,359,000 for the nine months ended 31 December 2017 to approximately HK\$2,641,000 for the nine months ended 31 December 2018. The Group's gross profit margin decreased from approximately 4.3% for the nine months ended 31 December 2017 to approximately 0.7% for the nine months ended 31 December 2018, representing a decrease of approximately 3.6 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 2018 annual report dated 25 June 2018.

Other Income

Other income of the Group increased by approximately HK\$15,642,000 from approximately HK\$244,000 for the nine months ended 31 December 2017 to approximately HK\$15,886,000 for the nine months ended 31 December 2018. The increase was mainly due to the refund of insurance, written off of retention payable and the net effect of realised gain on disposal of investment in listed securities as disclosed in the discloseable transaction announcement dated 29 May 2018 and the unrealised fair value change of other investments in listed securities.

Administrative and Other Operating Expenses

Administrative and other operating expenses of the Group decreased by approximately HK\$3,764,000 from approximately HK\$10,905,000 for the nine months ended 31 December 2017 to approximately HK\$7,141,000 for the nine months ended 31 December 2018. Administrative and other operating expenses consist primarily of staff costs, depreciation, rental expenses and other administrative expenses. The decrease was mainly due to the decrease in staff costs incurred.



Finance Costs

Finance costs for the Group decreased by approximately HK\$220,000 from approximately HK\$238,000 for the nine months ended 31 December 2017 to approximately HK\$18,000 for the nine months ended 31 December 2018. 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\$481,000 from approximately HK\$2,736,000 for the nine months ended 31 December 2017 to approximately HK\$2,255,000 for the nine months ended 31 December 2018. Such decrease was in line with the decrease in profit before income tax during the nine months ended 31 December 2018.

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\$2,611,000 from approximately HK\$11,724,000 for the nine months ended 31 December 2017 to approximately HK\$9,113,000 for the nine months ended 31 December 2018. 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 2018 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 2018, 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 2018, 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:

<u>Name of Shareholder</u>	<u>Capacity/Nature</u>	<u>Number of Shares held/ interested</u>	<u>Percentage of shareholding</u>
Blooming Union Investments Limited ("Blooming Union")	Beneficial owner	327,030,000	26.20%
Wong Che Kwo	Interest in a controlled corporation (<i>Note 1</i>)	327,030,000	26.20%
Law Oi Ling	Interest of spouse (<i>Note 2</i>)	327,030,000	26.20%
Wong Wing Wah	Interest in a controlled corporation (<i>Note 1</i>)	327,030,000	26.20%
Lai Siu Kuen	Interest of spouse (<i>Note 3</i>)	327,030,000	26.20%

Note:

1. Blooming Union is owned as to 50% and 50% by each of Mr. Wong Che Kwo and Mr. Wong Wing Wah respectively. Mr. Wong Che Kwo and Mr. Wong Wing Wah is deemed to be interested in the Shares held by Blooming Union pursuant to the SFO.
2. 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.
3. 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 2018 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 headed "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

The Directors confirm that none of the then 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 2018 and up to the date of this announcement.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Group has appointed TC Capital International Limited as its compliance adviser, which will provide advice and guidance to the Group in respect of compliance with the applicable laws and the GEM Listing Rules. Except for the compliance adviser agreement entered into between the Company and the compliance adviser dated on 31 March 2016, neither the 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.

EVENT AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2018 and up to the date of this quarterly report.

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 2018.

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 2018 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 2018 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 2018.

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 2018.



AUDIT COMMITTEE

An audit committee has been established with its terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, and paragraphs C.3.3 and C.3.7 of the CG Code. The audit committee consists of three members, namely Mr. Wong Chi Kan, Mr. Liao Honghao and Mr. Tai Hin Henry, all being independent non-executive Directors. Mr. Wong Chi Kan currently serves as the chairman of the audit committee.

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 2018 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
So Kwok Hung
Chairman and Executive Director

Hong Kong, 1 February 2019

As at the date of this report, the executive Directors are Mr. So Kwok Hung and Ms. Yu Xiao and the independent non-executive Directors are Mr. Wong Chi Kan, Mr. Tai Hin Henry and Mr. Liao Honghao.