

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

2019
THIRD QUARTERLY REPORT





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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 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 2019 together with the unaudited comparative figures for the corresponding periods of 2018.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 31 December 2019

	Note	Three months ended 31 December		Nine months ended 31 December	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue	3	77,943	112,184	263,152	360,757
Cost of sales		(86,017)	(114,776)	(276,230)	(358,116)
Gross (loss)/profit		(8,074)	(2,592)	(13,078)	2,641
Other gain/(loss)		(617)	2,270	(12,217)	15,886
Administrative and other operating expenses		(3,339)	(1,733)	(17,580)	(7,141)
(Loss)/profit from operations		(12,030)	(2,055)	(42,875)	11,386
Finance costs		(8)	(17)	(26)	(18)
(Loss)/profit before income tax		(12,038)	(2,072)	(42,901)	11,368
Income tax credit/(expense)	4	103	–	(858)	(2,255)
(Loss)/profit for the period		(11,935)	(2,072)	(43,759)	9,113
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		(11,935)	(2,072)	(43,759)	9,113
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share attributable to equity holders of the Company					
Basic and diluted	6	(0.96)	(0.17)	(3.51)	0.73

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 December 2019

	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	Share options reserve HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	Retained earnings/ (Accumulated losses) HK\$'000	
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)	<u>12,480</u>	<u>36,672</u>	<u>(426)</u>	<u>–</u>	<u>10,400</u>	<u>3,820</u>	<u>49,645</u>	<u>112,591</u>
Balance as at 1 April 2019 (audited)	12,480	36,672	–	–	10,400	3,820	19,087	82,459
Share options issued during the period	–	–	–	6,806	–	–	–	6,806
Loss and total comprehensive loss for the period	–	–	–	–	–	–	(43,759)	(43,759)
Balance as at 31 December 2019 (unaudited)	<u>12,480</u>	<u>36,672</u>	<u>–</u>	<u>6,806</u>	<u>10,400</u>	<u>3,820</u>	<u>(24,672)</u>	<u>45,506</u>

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 2019 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 2019. 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 2019.

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 2019, 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 investments in debts and equity securities are 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

Under the two-tiered profits tax rate regime, the first HK\$2 million of profits of a qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

For the three months and nine months ended 31 December 2019 and 2018, Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

	Three months ended 31 December		Nine months ended 31 December	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Current tax				
– Hong Kong profits tax	(103)	–	858	252
– Deferred tax	–	–	–	2,003
Income tax (credit)/expense	(103)	–	858	2,255

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2019 and 2018.

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	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
(Loss)/earnings				
(Loss)/profit for the period attributable to equity holders of the Company	(11,935)	(2,072)	(43,759)	9,113
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 2019 and 2018 represents 1,248,000,000 shares in issue throughout the period.

There were no dilutive potential ordinary shares during the periods ended 31 December 2019 and 2018 and therefore, diluted (loss)/earnings per share equals to the basic (loss)/earnings per share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group has over 20 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 Group experienced a decrease in revenue for the nine months ended 31 December 2019 compared with the corresponding period in 2018. Such decrease was mainly due to the negative effect arose from social demonstration which affect the progress of several on-going construction projects and the overall economic depression in Hong Kong and the global.

In the 2019-20 Budget Speech, the Government reiterated its commitment to infrastructure and announced to spend an estimated HK\$6 billion on public infrastructure enhancement. It is expected construction projects is about to remain at a stable level in the next few years. However, challenges like delaying in budget approval due to filibustering and shortage of manpower and also the outbreak of the coronavirus will continue to strike the civil engineering industry.

As to the Group, we are confident with the prospects of the Group for the next few years as we have recently secured few projects which estimated to be completed in end-2019 and 2020. These projects could ensure sustainability of the Group and increase employees' loyalty towards 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. Besides, in order to increase shareholders' return, the Group will put efforts to evaluate the feasibility of obtaining necessary licenses to carry out civil engineering works and related operations in other countries, such as Japan and Thailand.

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\$97,605,000 from approximately HK\$360,757,000 for the nine months ended 31 December 2018 to approximately HK\$263,152,000 for the nine months ended 31 December 2019. Such decrease was mainly due to the negative effect arose from social demonstration which affect the progress of several on-going construction projects and the overall economic depression in Hong Kong and the global.

Gross Profit and Gross Profit Margin

The Group's gross profit turnaround from approximately HK\$2,641,000 for the nine months ended 31 December 2018 to loss of approximately HK\$13,078,000 for the nine months ended 31 December 2019 due to few large construction projects reaching completion stage.

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 2019 annual report dated 21 June 2019.

Other Gain/(Loss)

Other gain/(loss) of the Group turnaround from gain of approximately HK\$15,886,000 for the nine months ended 31 December 2018 to loss of approximately HK\$12,217,000 for the nine months ended 31 December 2019. The increase was mainly due to the realised and unrealised gain on investments in listed securities for the nine months ended 31 December 2018 turnaround to realised and unrealised loss on investment in listed securities for the nine months ended 31 December 2019.

Administrative and Other Operating Expenses

Administrative and other operating expenses of the Group increased by approximately HK\$10,439,000 from approximately HK\$7,141,000 for the nine months ended 31 December 2018 to approximately HK\$17,580,000 for the nine months ended 31 December 2019. Administrative and other operating expenses consist primarily of staff costs, depreciation, rental expenses and other administrative expenses. The increase was mainly due to the recognition of share-based payment of approximately HK\$6,806,000 arising from the share options issued during the period.

Finance Costs

Finance costs for the Group increased by approximately HK\$8,000 from approximately HK\$18,000 for the nine months ended 31 December 2018 to approximately HK\$26,000 for the nine months ended 31 December 2019.

Income Tax Expense

Income tax expense for the Group had decreased by approximately HK\$1,397,000 from approximately HK\$2,255,000 for the nine months ended 31 December 2018 to approximately HK\$858,000 for the nine months ended 31 December 2019. Such decrease was in line with the decrease in results before income tax during the nine months ended 31 December 2019.

Loss and Total Comprehensive Expense for the Period Attributable to Equity Holders of the Company

Results for the period attributable to equity holders of the Company turnaround from profit of approximately HK\$9,113,000 for the nine months ended 31 December 2018 to loss of approximately HK\$43,759,000 for the nine months ended 31 December 2019. Such decrease was primarily attributable to the net effect of the decrease in revenue and gross profit, and increase in administrative expenses for the nine months ended 31 December 2019 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 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and 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, are as follows:

Long position in the shares and underlying shares of the Company

Name of Director	Number of issued ordinary shares/ underlying shares of the Company	Personal interests	Total	Percentage of the issued shares capital of the Company
So Kwok Hung				
– Unlisted share options	12,480,000		12,480,000	1.00%
Yu Xiao				
– Unlisted share options	12,480,000		12,480,000	1.00%

Save as disclosed above, 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 2019, 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 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 2019 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 2019 and up to the date of this report.

EVENT AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2019 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 2019.

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 2019 and up to the date of this report, the Company has complied with all the applicable code provisions set out in the Code except for the following deviation:

Code provision A.6.7 of the Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Due to other business engagement, the independent non-executive Director, Mr. Tai Hin Henry was unable to attend the annual general meeting of the Company held on 6 September 2019.

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 2019 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 2019.

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.

Details of the options outstanding for the nine months ended 31 December 2019 are as follows:

Grantees	Date of grant	No. of shares comprised in options				As at 31 December 2019	Exercise price per share
		As at 1 April 2019	Granted during the period	Exercised during the period	Lapsed during the period		
Executive director							
So Kwok Hung	11 July 2019	-	12,480,000	-	-	12,480,000	HK\$0.101
Yu Xiao	11 July 2019	-	12,480,000	-	-	12,480,000	HK\$0.101
Other employees							
	11 July 2019	-	62,400,000	-	-	62,400,000	HK\$0.101
Consultants							
	11 July 2019	-	37,440,000	-	-	37,440,000	HK\$0.101
	Total	-	124,800,000	-	-	124,800,000	

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 2019 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, 13 February 2020

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.