

# 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

### 2020 FIRST QUARTERLY REPORT



## 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.*

## FINANCIAL HIGHLIGHTS

For the three months ended 30 June 2020, the operating results of the Company and its subsidiaries (collectively referred to as the "Group") were as follows:

- Revenue amounted to approximately HK\$52.2 million for the three months ended 30 June 2020, representing a decrease of approximately HK\$69.4 million as compared with the corresponding period in 2019;
- Gross result for the three months ended 30 June 2020 turnaround to loss approximately HK\$2.3 million from profit of approximately HK\$9.9 million for the corresponding period in 2019;
- Loss and total comprehensive loss for the three months ended 30 June 2020 attributable to equity holders of the Company amounted to approximately HK\$2.0 million, representing a turnaround from profit of approximately HK\$0.3 million as compared with the corresponding period in 2019;
- Basic and diluted loss per share for the three months ended 30 June 2020 amounted to approximately HK cent 0.63, representing a turnaround from earnings per share of approximately HK cent 0.11 (restated) as compared with the corresponding period in 2019; and
- The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2020.

## FIRST QUARTERLY RESULTS

The board (the “Board”) of directors (the “Directors”) is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 30 June 2020 together with the unaudited comparative figures for the corresponding period of 2019.

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

For the three months ended 30 June 2020

	Note	Three months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
<b>Revenue</b>	3	<b>52,227</b>	121,642
Cost of sales		<b>(54,483)</b>	(111,780)
<b>Gross (loss)/profit</b>		<b>(2,256)</b>	9,862
Other gain or loss		<b>2,741</b>	(5,560)
Administrative and other operating expenses		<b>(2,456)</b>	(3,385)
<b>(Loss)/profit from operations</b>		<b>(1,971)</b>	917
Finance costs		<b>(8)</b>	(9)
<b>(Loss)/profit before income tax</b>		<b>(1,979)</b>	908
Income tax expense	4	<b>–</b>	(565)
<b>(Loss)/profit and total comprehensive (loss)/income for the period attributable to equity holders of the Company</b>		<b>(1,979)</b>	343
		<b>HK cents</b>	<b>HK cents</b>
<b>(Loss)/earnings per share attributable to equity holders of the Company</b>			
Basic and diluted	6	<b>(0.63)</b>	0.11 (restated)

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

For the three months ended 30 June 2020

	Total equity attributable to equity holders of the Company							Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Revaluation reserve HK\$'000	Share-based payments reserve HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	Retained earnings/ (Accumulated losses) HK\$'000	
Balance as at 1 April 2019	12,480	36,672	-	-	10,400	3,820	19,087	82,459
Profit and total comprehensive income for the period	-	-	-	-	-	-	343	343
Balance as at 30 June 2019 (unaudited)	<u>12,480</u>	<u>36,672</u>	<u>-</u>	<u>-</u>	<u>10,400</u>	<u>3,820</u>	<u>19,430</u>	<u>84,802</u>
Balance as at 1 April 2020	12,480	36,672	-	4,329	10,400	3,820	(36,480)	31,221
Loss and total comprehensive loss for the period	-	-	-	-	-	-	(1,979)	(1,979)
<b>Balance as at 30 June 2020 (unaudited)</b>	<b><u>12,480</u></b>	<b><u>36,672</u></b>	<b><u>-</u></b>	<b><u>4,329</u></b>	<b><u>10,400</u></b>	<b><u>3,820</u></b>	<b><u>(38,459)</u></b>	<b><u>29,242</u></b>



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2020

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 16 October 2015. The addresses 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 is principally engaged in the provision of civil engineering works and investment holding.

As at 30 June 2020, the Company's immediate and ultimate holding company is Blooming Union Investments Limited ("Blooming Union"), a company incorporated and domiciled in the British Virgin Islands ("BVI"). As at 30 June 2020, the directors consider the ultimate controlling shareholders of the Company to be Mr. Wong Che Kwo and Mr. Wong Wing Wah (collectively referred to as the "Controlling Shareholders").

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 ended 30 June 2020 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 2020. 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 2020.

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 2020, 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 certain financial instruments that are measured at fair values at the end of each reporting period as explained in the accounting policies set out in the annual consolidated financial statements of the Group for the year ended 31 March 2020.

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 EXPENSE

	Three months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
<b>Current tax</b>		
– Hong Kong profits tax	–	565
– Deferred tax	–	–
Income tax expense	–	565

#### Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

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 six months ended 30 June 2019, 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%.

For the six months ended 30 June 2020, Hong Kong Profits Tax was calculated at a flat rate of 16.5% (2019: 16.5%) of the estimated assessable profits.

The directors are in the view that the impact of the two-tiered profits tax rates regime on the Group's current and deferred tax position is not material.

### 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2020 and 2019.

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:

	<b>Three months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>(Loss)/Earnings</b>		
(Loss)/profit for the period attributable to equity holders of the Company	<b>(1,979)</b>	343
<b>Number of shares</b>		
Weighted average number of ordinary shares (in thousands)	<b>312,000</b>	312,000 (restated)

The computation of diluted loss/earnings per share for the six months ended 30 June 2020 and 30 June 2019 does not assume the exercise of the Company's outstanding share options since their assumed exercise would result in a decrease in loss/earnings per share.

During the year ended 31 March 2020, the Company implemented the share consolidation of every four shares into one consolidated share (the "Share Consolidation"). The Share Consolidation were completed on 18 March 2020. Accordingly, the weighted average number of shares for the purposes of basic and diluted loss/earnings per share has been adjusted for both periods.



## 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 and gross profit margin for the three months ended 30 June 2020 compared with the corresponding period in 2019. Such decrease was mainly due to some large constructions projects reaching completion stage and the outbreak of COVID-19 affected the progress of the projects.

In the 2020-21 Budget Speech, the Government reiterated its commitment to infrastructure and announced the annual capital works expenditure is expected to reach HK\$100 billion on average on infrastructure projects in the next few years. 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, delaying in progress due to social demonstration and shortage of manpower 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-2020. These projects could ensure sustainability of the Group and increase employees' loyalty towards the Group.

2021 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 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\$69,415,000 from approximately HK\$121,642,000 for the three months ended 30 June 2019 to approximately HK\$52,227,000 for the three months ended 30 June 2020. Such decrease was mainly due to some large constructions projects reaching completion stage and the outbreak of COVID-19 affected the progress of the projects.

### Gross Profit and Gross Profit Margin

The Group's gross results turnaround to loss of approximately HK\$2,256,000 from profit of approximately HK\$9,862,000 for the three months ended 30 June 2019.

The gross profit margin varied substantially from project to project and is mainly attributable to its pricing strategy, which is determined based on a cost-plus pricing model in general with markup determined on a project-by-project basis. 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 2020 annual report dated 26 June 2020.

### Other Gain or Loss

Other gain or loss of the Group decreased from loss of approximately HK\$5,560,000 for the three months ended 30 June 2019 to gain of approximately HK\$2,741,000 for the three months ended 30 June 2020. It mainly comprised of the reversal of over-provision of severance payment recognised in previous period of approximately HK\$1,505,000 during the three months ended 30 June 2020.

### Administrative Expenses

Administrative expenses of the Group decreased by approximately HK\$929,000 from approximately HK\$3,385,000 for the three months ended 30 June 2019 to approximately HK\$2,456,000 for the three months ended 30 June 2020. Administrative expenses consist primarily of staff costs, professional fees, depreciation, rental expenses and other administrative expenses. Such increase was primarily attributable to the increase in consultancy and staff related expenses.

### Finance Costs

Finance costs for the Group remained stable at approximately HK\$9,000 for the three months ended 30 June 2019 and approximately HK\$8,000 for the three months ended 30 June 2020.

### Income Tax Expense

Income tax expense for the Group had decreased by approximately HK\$565,000 from approximately HK\$565,000 for the three months ended 30 June 2019 to approximately HK\$Nil for the three months ended 30 June 2020.

## **(Loss)/profit and total comprehensive (loss)/income for the period attributable to equity holders of the Company**

Results for the period attributable to equity holders of the Company turnaround to loss of approximately HK\$1,979,000 from profit of approximately HK\$343,000 for the three months ended 30 June 2019. Such turnaround was primarily attributable to the effect of the decrease in revenue and gross profit for the three months ended 30 June 2020 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 30 June 2020, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), 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 they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, 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:

#### **Aggregate long positions in the shares and underlying shares of the Company**

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of the Company's issued share capital</b>
<b>Executive Directors:</b>			
So Kwok Hung	Personal interest	3,120,000	1%
Yu Xiao	Personal interest	3,120,000	1%

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executive of the Company had any interests or short positions in any shares, debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), 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 they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2020, 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:

<b>Name of Shareholder</b>	<b>Capacity/Nature</b>	<b>Number of Shares held/interested</b>	<b>Percentage of shareholding</b>
Blooming Union Investment Limited ("Blooming Union")	Beneficial owner	81,757,500	26.20%
Wong Che Kwo	Interest in a controlled corporation ( <i>Note 1</i> )	81,757,500	26.20%
Law Oi Ling	Interest of spouse ( <i>Note 2</i> )	81,757,500	26.20%
Wong Wing Wah	Interest in a controlled corporation ( <i>Note 1</i> )	81,757,500	26.20%
Lai Siu Kuen	Interest of spouse ( <i>Note 3</i> )	81,757,500	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 30 June 2020 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.

## **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 Company's listed securities during the three months ended 30 June 2020.

## **COMPLIANCE WITH THE 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") in Appendix 15 of the GEM Listing Rules. The Directors consider that during the three months ended 30 June 2020 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 (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 three months ended 30 June 2020 and up to the date of this report.

## **DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2020.

## **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.

Up to the date of this report, 31,200,000 share options has been granted by the Company pursuant to such Share Option Scheme. The options are unlisted. Each option gives the holder the right to subscribe for one share of HK\$0.04 each of the Company.

Category of participants	Date of grant	Number of share options				Outstanding as at 30 June 2020	Exercisable period	Exercise price per share (HK\$)
		Granted during the three months ended 30 June 2020	Exercised during the three months ended 30 June 2020	Cancelled/ lapsed during the three months ended 30 June 2020	Forfeited during the three months ended 30 June 2020			
<b>Executive director</b>								
So Kwok Hung	11 July 2019	-	-	-	-	3,120,000	5 years	0.404
Xu Xiao	11 July 2019	-	-	-	-	3,120,000	5 years	0.404
<b>Employees</b>								
	11 July 2019	-	-	-	-	15,600,000 (note (i))	5 years	0.404
<b>Consultants</b>								
	11 July 2019	-	-	-	-	9,360,000 (note (ii))	5 years	0.404

Notes:

- (i) The share options have been granted to 5 employees and each of them hold 3,120,000 share options.
- (ii) The share options have been granted to 3 consultants and each of them hold 3,120,000 share options.

## EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, the Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 30 June 2020 and up to the date of this report.



## 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 Code. The audit committee consists of three members, namely Mr. Liao Honghao, Mr. Wong Chi Kan 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 the Group, and as to the adequacy of the external and internal audits.

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the three months ended 30 June 2020 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  
**Luen Wong Group Holdings Limited**  
**So Kwok Hung**  
*Executive Director*

Hong Kong, 13 August 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.*