

# 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

### THIRD QUARTERLY REPORT



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

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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 2020 together with the unaudited comparative figures for the corresponding periods of 2019.

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

For the three months and nine months ended 31 December 2020

	Note	Three months ended 31 December		Nine months ended 31 December	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
<b>Revenue</b>	3	<b>46,534</b>	77,943	<b>148,453</b>	263,152
Cost of sales		<b>(45,493)</b>	(86,017)	<b>(148,238)</b>	(276,230)
<b>Gross profit/(loss)</b>		<b>1,041</b>	(8,074)	<b>215</b>	(13,078)
Other gain/(loss)		<b>2,214</b>	(617)	<b>7,090</b>	(12,217)
Administrative and other operating expenses		<b>(3,760)</b>	(3,339)	<b>(21,615)</b>	(17,580)
<b>Loss from operations</b>		<b>(505)</b>	(12,030)	<b>(14,310)</b>	(42,875)
Finance costs		<b>(6)</b>	(8)	<b>(19)</b>	(26)
<b>Loss before income tax</b>		<b>(511)</b>	(12,038)	<b>(14,329)</b>	(42,901)
Income tax credit/(expense)	4	<b>–</b>	103	<b>–</b>	(858)
<b>Loss for the period</b>		<b>(511)</b>	(11,935)	<b>(14,329)</b>	(43,759)
<b>Total comprehensive expense for the period attributable to equity holders of the Company</b>		<b>(511)</b>	(11,935)	<b>(14,329)</b>	(43,759)
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Loss per share attributable to equity holders of the Company</b>					
Basic and diluted	6	<b>(0.14)</b>	(3.83) (Restated)	<b>(4.24)</b>	(14.03) (Restated)

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

For the nine months ended 31 December 2020

	Total equity attributable to equity holders of the Company						Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share-based payments HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	Retained	
						earnings/ (Accumulated losses) HK\$'000	
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>6,806</u>	<u>10,400</u>	<u>3,820</u>	<u>(24,672)</u>	<u>45,506</u>
Balance as at 1 April 2020 (audited)	<b>12,480</b>	<b>36,672</b>	<b>4,329</b>	<b>10,400</b>	<b>3,820</b>	<b>(36,480)</b>	<b>31,221</b>
Placing of shares	<b>2,496</b>	<b>2,675</b>	-	-	-	-	<b>5,171</b>
Share options issued during the period	-	-	<b>1,603</b>	-	-	-	<b>1,603</b>
Lapse of share options	-	-	<b>(593)</b>	-	-	<b>593</b>	-
Loss and total comprehensive loss for the period	-	-	-	-	-	<b>(14,329)</b>	<b>(14,329)</b>
Balance as at 31 December 2020 (unaudited)	<u><b>14,976</b></u>	<u><b>39,347</b></u>	<u><b>5,339</b></u>	<u><b>10,400</b></u>	<u><b>3,820</b></u>	<u><b>(50,216)</b></u>	<u><b>23,666</b></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 2202, 22/F, Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, 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 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 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 2020 and 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%.

	Three months ended 31 December		Nine months ended 31 December	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
<b>Current tax</b>				
– Hong Kong profits tax	–	(103)	–	858
– Deferred tax	–	–	–	–
Income tax (credit)/expense	–	(103)	–	858

#### 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2020 and 2019.

#### 6. LOSS PER SHARE

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

	Three months ended 31 December		Nine months ended 31 December	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
<b>Loss</b>				
Loss for the period attributable to equity holders of the Company	(511)	(11,935)	(14,329)	(43,759)
<b>Number of shares</b>				
Weighted average number of ordinary shares (in thousands)	374,400	312,000 (Restated)	338,190	312,000 (Restated)

On 7 September 2020, 62,400,000 placing shares of the Company have been successfully placed by the placing agent. For details, please refer to the Company's announcement dated 7 September 2020.

There were no dilutive potential ordinary shares during the periods ended 31 December 2020 and 2019 and therefore, diluted loss per share equals to the basic loss 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 per share has been adjusted for three months and nine months ended 31 December 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND OUTLOOK

The Group has over 21 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 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 2021. 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\$114,699,000 from approximately HK\$263,152,000 for the nine months ended 31 December 2019 to approximately HK\$148,453,000 for the nine months ended 31 December 2020. Such decrease was mainly due to some large construction 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 from loss of approximately HK\$13,078,000 for the nine months ended 31 December 2019 to profit of approximately HK\$215,000 for the nine months ended 31 December 2020 as the Group has commenced a new project during the period.

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 2020 annual report dated 26 June 2020.

### Other Gain/(Loss)

Other gain/(loss) of the Group turnaround from loss of approximately HK\$12,217,000 for the nine months ended 31 December 2019 to gain of approximately HK\$7,090,000 for the nine months ended 31 December 2020. The turnaround was mainly due to (1) the decrease in the fair value loss on investments in listed securities for the nine months ended 31 December 2020 of approximately HK\$1,027,000 comparing with that of 2019 of approximately HK\$12,689,000; and (2) the subsidies received from Employment Support Scheme launched by HKSAR Government during the nine months ended 31 December 2020.

### Administrative and Other Operating Expenses

Administrative and other operating expenses of the Group increased by approximately HK\$4,035,000 from approximately HK\$17,580,000 for the nine months ended 31 December 2019 to approximately HK\$21,615,000 for the nine months ended 31 December 2020. Administrative and other operating expenses consist primarily of staff costs, depreciation, rental expenses and other administrative expenses. The increase was mainly due to expected credit loss of approximately HK\$7,758,000 recognised during the period.



## Finance Costs

Finance costs for the Group decreased by approximately HK\$7,000 from approximately HK\$26,000 for the nine months ended 31 December 2019 to approximately HK\$19,000 for the nine months ended 31 December 2020.

## Income Tax Expense

Income tax expense for the Group had decreased by approximately HK\$858,000 from approximately HK\$858,000 for the nine months ended 31 December 2019 to approximately HK\$Nil for the nine months ended 31 December 2020. Such decrease was in line with the decrease in results before income tax during the nine months ended 31 December 2020.

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

Loss for the period attributable to equity holders of the Company decreased from approximately HK\$43,759,000 for the nine months ended 31 December 2019 to approximately HK\$14,329,000 for the nine months ended 31 December 2020. Such decrease was primarily attributable to the net effect of the decrease in revenue, turnaround in gross result, and increase in administrative expenses for the nine months ended 31 December 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 31 December 2020, 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		Percentage of the issued shares capital of the Company
	Personal interests	Total	
So Kwok Hung			
– Unlisted share options	6,240,000	6,240,000	1.67%
Yu Xiao			
– Unlisted share options	6,240,000	6,240,000	1.67%
Wong Chi Kan			
– Unlisted share options	3,120,000	3,120,000	0.83%
Liao Honghao			
– Unlisted share options	3,120,000	3,120,000	0.83%
Lao In lam			
– Unlisted share options	3,120,000	3,120,000	0.83%

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 2020, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, there is no person (other than the Directors and chief executive of the Company disclosed above) had, or was deemed or taken to have, an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any other member of the Group.

## **USE OF PROCEEDS OBTAINED FROM THE PLACING**

On 7 September 2020, the Group has completed a placing of new shares. The net proceeds from the placing, after deducting related expenses were approximately HK\$5.2 million, which is intended to use for the general working capital of the Group and improve the cash position of the Group which then can help establishing and strengthening the existing and future business of the Group. For details, please refer to the Company's announcement dated 7 September 2020.

Up to 31 December 2020, approximately HK\$1.4 million has been utilized as general working capital including payroll and settlement of payables. The unutilised net proceeds of approximately HK\$3.8 million are placed in the bank accounts of the Group.

## **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 2020 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 2020 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 2020.

## **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 2020 and up to the date of this report, the Company has complied with all the applicable code provisions.

## **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 2020 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 2020.

## 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 2020 are as follows:

Grantees	Date of grant	Vesting Period	No. of shares comprised in options				As at 31 December 2020	Exercise price per share
			As at 1 April 2020	Granted during the period	Exercised during the period	Lapsed during the period		
<b>Directors</b>								
So Kwok Hung	11 July 2019	No	3,120,000	–	–	–	3,120,000	HK\$0.404
	18 August 2020	No	–	3,120,000	–	–	3,120,000	HK\$0.090
Yu Xiao	11 July 2019	No	3,120,000	–	–	–	3,120,000	HK\$0.404
	18 August 2020	No	–	3,120,000	–	–	3,120,000	HK\$0.090
Wong Chi Kan	18 August 2020	No	–	3,120,000	–	–	3,120,000	HK\$0.090
Liao Honghao	18 August 2020	No	–	3,120,000	–	–	3,120,000	HK\$0.090
Lao In lam	18 August 2020	No	–	3,120,000	–	–	3,120,000	HK\$0.090
<b>Other employees</b>								
	11 July 2019	No	15,600,000	–	–	(3,120,000)	12,480,000	HK\$0.404 <i>(note (i))</i>
	18 August 2020	No	–	15,600,000	–	(3,120,000)	12,480,000	HK\$0.090 <i>(note (i))</i>
<b>Consultants</b>								
	11 July 2019	No	9,360,000	–	–	–	9,360,000	HK\$0.404 <i>(note (ii))</i>
Total			<u>31,200,000</u>	<u>31,200,000</u>	<u>–</u>	<u>(6,240,000)</u>	<u>56,160,000</u>	

*Note:*

- (i) The share options have been granted to 4 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.

The closing price of the Company’s shares immediately before the date of grant of share options on 18 August 2020 was HK\$0.090.

## 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 Ms. Lao In lam, 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 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  
**So Kwok Hung**  
*Chairman and Executive Director*

Hong Kong, 10 February 2021

*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, Ms. Lao In Lam and Mr. Liao Honghao.*