

CHINA HONGBAO HOLDINGS LIMITED 中國紅包控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8316

2023

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

FINANCIAL RESULTS

The board of Directors (the "Board") would like to present the unaudited condensed consolidated results of the Group for the three months ended 30 June 2023, together with the comparative unaudited figures for the corresponding period in 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 30 June 2023

	Notes	Three months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	3	29,268	15,725
Cost of sales		(22,055)	(13,453)
Gross profit		7,213	2,272
Administrative expenses		(6,701)	(2,371)
Finance costs	4	(418)	(520)
Profit/(Loss) before income tax	5	94	(619)
Income tax expense	6	(2)	–
Profit/(Loss) for the period		92	(619)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		68	–
Profit/(Loss) and total comprehensive income for the period attributable to the owners of the Company		160	(619)
Earnings/(Loss) per share		HK cents	HK cents
— Basic and diluted	7	0.01	(0.08)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2023

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Capital reserve HK\$'000	Total HK\$'000
As at 1 April 2023 (Audited)	8,664	129,601	(51,705)	5,741	341	(1,181)	(115,875)	(24,414)
Profit for the period	-	-	-	-	-	92	-	92
Other comprehensive income:								
Exchange differences arising on translation of foreign operations	-	-	-	-	68	-	-	68
Profit and total comprehensive income for the period	-	-	-	-	68	92	-	160
As at 30 June 2023 (Unaudited)	8,664	129,601	(51,705)	5,741	409	(1,089)	(115,875)	(24,254)
As at 1 April 2022 (Audited)	8,000	82,525	(51,705)	341	93	(96,834)	5,741	(51,839)
Loss and total comprehensive expense for the period	-	-	-	-	-	(619)	-	(619)
As at 30 June 2022 (Unaudited)	8,000	82,525	(51,705)	341	93	(97,453)	5,741	(52,458)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 15 July 2014, as an exempted company with limited liability under the Companies Law (2004 revision) Chapter 22 of the Cayman Islands. The registered office of the Company is located at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and the head office and principal place of business of the Company is located at Unit Nos. 1–3 on Level 9 of Tower A of Kowloon Commerce Centre, No. 51 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong. The Company is an investment holding company and the Group is principally engaged in foundation and other construction business in Hong Kong and supply chain management in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated financial statements for the three months ended 30 June 2023 has been prepared in accordance with the accounting policies, which conforms with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the applicable disclosure provisions of the GEM Listing Rules.

These unaudited condensed consolidated financial statements do not include all the information and disclosures required in a full set of financial statements prepared in accordance with HKFRSs, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2023.

The preparation of financial statements in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgements in the process of applying the Group's accounting policies.

The unaudited condensed consolidated financial statements for the three months ended 30 June 2023 have not been audited by the Company's independent auditors, but have been reviewed by the audit committee (the "Audit Committee") of the Board.

The unaudited condensed consolidated financial statements for the three months ended 30 June 2023 have been prepared under the historical cost convention. The unaudited condensed consolidated financial statements is presented in Hong Kong dollars (HK\$), which is also the functional currency of the Company. All values are rounded to the nearest thousands except when otherwise indicated.

For the purpose of preparing and presenting the financial information of the unaudited condensed consolidated financial statements, the Group has consistently adopted HKFRSs issued by HKICPA which are effective for the Group's financial year beginning on 1 April 2023. The Group has not early applied the new and revised HKFRSs that have been issued by HKICPA but are yet to be effective.

3. REVENUE AND SEGMENT INFORMATION

The Group was principally engaged in the provision of foundation and other construction works in Hong Kong and supply chain management service in the PRC for the three months ended 30 June 2023. The executive Directors have been identified as the chief operating decision-maker (“**CODM**”), responsible for making strategic decisions, allocating resources and assessing performance of the operating segments.

In the second half of year 2022, the Group commenced the business in the supply chain management in the PRC and the Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments.

The reportable operating segments and their results are as below:

- provision of foundation and other construction works; and
- provision of services in supply chain management.

Three months ended 30 June 2023

	Foundation and other construction works HK\$'000	Supply chain management HK\$'000	Total HK\$'000
Revenue	13,907	15,361	29,268
Cost of sales	(12,643)	(9,412)	(22,055)
Segment profit	1,264	5,949	7,213
Unallocated corporate expenses			(6,701)
Finance costs			(418)
Profit before income tax			94
Income tax expense			(2)
Profit for the period			92

Three months ended 30 June 2022

	Foundation and other construction works HK\$'000	Supply chain management HK\$'000	Total HK\$'000
Revenue	15,725	–	15,725
Cost of sales	(13,453)	–	(13,453)
Segment profit	2,272	–	2,272
Unallocated corporate expenses			(2,371)
Finance costs			(520)
Loss before income tax			(619)
Income tax expense			–
Loss for the period			(619)

Geographical information

The Group's revenue was principally derived from Hong Kong and the PRC, based on the location of the customers.

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Hong Kong	13,907	14,274
The PRC	15,361	1,451
	29,268	15,725

4. FINANCE COSTS

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interest on lease liabilities	97	–
Interest on loan from other borrowings	162	154
Imputed interest for shareholder loans	159	366
	418	520

5. PROFIT/(LOSS) BEFORE INCOME TAX

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Profit/(loss) before income tax is arrived at after charging:		
Employee benefit expense (including Directors' remuneration)	6,771	1,272
Depreciation of property, plant and equipment	312	–
Depreciation of right-of-use assets	1,008	–

6. INCOME TAX EXPENSE

The amount of income tax expense in the condensed consolidated statement of profit or loss and other comprehensive income represents:

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Current tax for the period:		
Hong Kong profits tax	–	–
PRC Enterprise Income Tax	2	–
	2	–

Under the two-tiered Hong Kong profits tax regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25% and profits above HK\$2 million will be subject to the tax rate of 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will be taxed at the rate of 16.5%.

No provision for Hong Kong profits tax was made for the three months ended 30 June 2023 (2022: nil) as the group entities which are subject to Hong Kong profits tax either incurred losses for the period or had tax losses brought forward to set off with the assessable profits for the period.

The basic tax rate of the Group's PRC subsidiaries is 25% under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law. For the current period, certain subsidiaries of the Group qualified as small and micro enterprises and enjoy the reduction of the applicable tax rate to 10%.

7. EARNINGS/(LOSS) PER SHARE

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

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Earnings/(loss)		
Earnings/(loss) for the purpose of calculating basic earnings/(loss) per share	92	(619)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	866,400	800,000

Diluted earnings/(loss) per share was the same as basic earnings/(loss) per share as there were no potential dilutive ordinary shares outstanding for the three months ended 30 June 2023 and 2022.

8. DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 30 June 2023 (2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

The Group has been engaging in foundation works business as a subcontractor and other construction works in Hong Kong for over 10 years. Despite the COVID-19 pandemic has gradually subsided, the Hong Kong economy, including the construction industry, has not fully recovered from the pandemic. During the three months ended 30 June 2023, the overall construction industry in Hong Kong was still facing various challenges. Despite the uncertain economic and political environment of Hong Kong and around the world under the continuing impact of the COVID-19 pandemic and the unfavourable conditions in the construction industry such as keen competition due to the growing number of market players, continuously increasing construction costs due to labour shortage, increasingly stringent regulatory controls, rising construction material and operation costs and uncertain gross margin of construction projects, the Directors are of the view that the market conditions of the construction industry are improving and consider that with the Group's business presence and good reputation in the market, the Group is well-positioned to compete with its competitors under the above-mentioned challenges that are commonly faced by all industry players. During the three months ended 30 June 2023, the Group recorded revenue of approximately HK\$13.9 million from this business segment.

In addition to continuing the existing foundation works and other construction works business, the Group also explores other suitable business opportunities with a view to diversifying its business. Having considered the stable economic growth in the PRC and good prospects in the PRC supply chain market, the Company established an indirect wholly-owned subsidiary, Hainan Hongbao Linkage Technology Co. Ltd.* (海南紅包聯動科技有限公司) ("**Hainan Hongbao**"), in Hainan Province, the PRC on 6 July 2022 to start a new line of business in the supply chain industry in the PRC. The Group intends to develop Hainan Hongbao as an integrated supply chain management company that focuses on the livelihood aspects related to the improvement of the quality of life of the general public. Going beyond traditional model of supply chain management, the Group aims to effectively integrate and empower different subjects in the industry chain and strives to realise multi-channel supplier input, such as franchisees, agents, merchants, etc., involving various services covering the day-to-day needs of the general public. Hainan Hongbao has accumulated expertise and network of channels since the commencement of its supply chain management services in 2022 and has been looking to broaden the services provided. During the three months ended 30 June 2023, the Group recorded revenue of approximately HK\$15.4 million from this business segment.

* For identification purpose only

With the enhancement of cost control measures adopted by the Group in its foundation and other construction works business and the development of new line of supply chain management business, the Group recorded overall gross profit margin of approximately 24.6% for the three months ended 30 June 2023 as compared to the gross profit margin of approximately 14.4% for the three months ended 30 June 2022. The Directors consider the above new business was a successful step in the business diversification and expansion of the Group's business portfolio.

Meanwhile, the e-commerce market in the PRC has been growing rapidly in recent years. As disclosed in the announcement of the Company dated 1 June 2023, Hainan Hongbao intends to develop a one-stop e-commerce platform with diversified service offerings provided by merchants from different industries, including but not limited to transportation, domestic services, recreation and entertainment, culture and media, property leasing, beauty and wellness, network industry, consultancy and agency, renovation works, education and training, electronics and furniture maintenance and repair. Having considered the growth potential of the e-commerce market in the PRC, the Board believes that the Group's new business presence in the e-commerce market will enable the Group to capture the opportunities from the continuing expanding e-commerce market in the PRC, diversify its existing business portfolio and broaden its revenue stream. The Group will proactively explore new opportunities to benefit the Company and its shareholders as a whole in long run.

FINANCIAL REVIEW

Revenue

The Group's revenue for the three months ended 30 June 2023 was approximately HK\$29.3 million, representing an increase of approximately HK\$13.6 million or 86.1% as compared to approximately HK\$15.7 million for the three months ended 30 June 2022. The increase was mainly attributable to revenue generated from supply chain management services undertaken by the Group during the three months ended 30 June 2023.

Cost of Sales

The Group's cost of sales increased from approximately HK\$13.5 million for the three months ended 30 June 2022 to approximately HK\$22.1 million for the three months ended 30 June 2023, representing an increase of approximately HK\$8.6 million or 63.9%. The increase in cost of sales of the Group was generally consistent with the increase in revenue for the three months ended 30 June 2023.

Gross Profit and Gross Profit Margin

For the three months ended 30 June 2023, the Group recorded a gross profit of approximately HK\$7.2 million (2022: approximately HK\$2.3 million) and the gross profit margin was approximately 24.6% (2022: approximately 14.4%). The increase in gross profit was due to the increase in revenue as explained above.

Administrative Expenses

The administrative expenses increased by approximately HK\$4.3 million or 182.6%, from approximately HK\$2.4 million for the three months ended 30 June 2022 to approximately HK\$6.7 million for the three months ended 30 June 2023. The increase was mainly due to the increase in the staff costs due to the increase in number of staff.

Profit/(Loss) Attributable to Owners of the Company

As a result of the foregoing factors, the Group recorded profit attributable to owners of the Company of approximately HK\$92,000 for the three months ended 30 June 2023, as compared with loss attributable to owners of the Company of approximately HK\$619,000 for the three months ended 30 June 2022.

Dividend

The Board does not recommend the payment of dividend for the three months ended 30 June 2023 (2022: nil).

EVENT AFTER THE REPORTING PERIOD

Reference is made to the announcements of the Company dated 26 June 2023 and 19 July 2023, the board lot size of the ordinary shares in the Company (the “**Shares**”) for trading on GEM of the Stock Exchange has been changed from 10,000 Shares to 2,000 Shares with effect from 17 July 2023. The change in board lot size has not resulted in any change in the relative rights of the shareholders of the Company.

Save as disclosed in this report, there is no other material subsequent event undertaken by the Company or by the Group after 30 June 2023 and up to the date of this report.

OTHER INFORMATION

Directors' and chief executives' interest and short positions in shares, underlying shares and debentures

As at 30 June 2023, the interests and short positions of the Directors and chief executives 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 Securities and Futures Ordinance (the "SFO")) which are 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 or short positions which they were taken or deemed to have under such provisions), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules, are as follows:

Long positions in the ordinary shares of the Company

Name	Capacity/Nature of interest	Number of shares held/ interested	Percentage of shareholding
Mr. Cheng Jun	Beneficial owner	180,890,000	20.88%

Save as disclosed above, as at 30 June 2023, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 30 June 2023, the following person/entity (other than the Directors and chief executives of the Company) had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Long positions in the ordinary shares of the Company

Name	Capacity/Nature of interest	Number of Shares held/interested	Percentage of shareholding
QUANTONG GROUP HOLDINGS LIMITED (" Quantong ")	Beneficial owner	300,040,000	34.63%
Mr. Xing Yuan (<i>Note 1</i>)	Interest in a controlled corporation	300,040,000	34.63%
Mr. Ji Zhiwei (<i>Note 2</i>)	Person having a security interest in shares	300,040,000	34.63%

Notes:

1. Mr. Xing Yuan beneficially owns the entire issued share capital of Quantong. Mr. Xing Yuan is deemed, or taken to be interested in all the shares of the Company held by Quantong for the purpose of the SFO.
2. Pursuant to a deed of assignment dated 3 March 2023 executed by Mr. Fu Yik Lung in favour of Mr. Ji Zhiwei, shares of the Company held by Quantong were pledged by Quantong in favour of Mr. Ji Zhiwei.

Save as disclosed above, as at 30 June 2023, none of the substantial or significant shareholders or other persons, other than the Directors and chief executives of the Company, had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “**Share Option Scheme**”) on 6 July 2015. No share option has been granted under the Share Option Scheme since its adoption.

COMPETING INTERESTS

During the three months ended 30 June 2023 and up to the date of this report, the Directors, the controlling shareholders of the Company and their respective close associates did not have any business or interest apart from the business of the Group which competes or may compete, directly or indirectly, with the business of the Group, or any other conflicts of interest which any such person has or may have with the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors on terms not less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the three months ended 30 June 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the three months ended 30 June 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions in the Corporate Governance Code (the “**Code**”) as set out in Appendix 15 to the GEM Listing Rules as its corporate governance practices. To the best knowledge of the Board, the Company had complied with all applicable code provisions as set out in the Code during the three months ended 30 June 2023 except for the deviation from code provision D.2.5 of the Code as set out in the “Corporate Governance Report” in the annual report of the Company dated 26 June 2023.

AUDIT COMMITTEE

The Audit Committee was established on 6 July 2015. The chairman of the Audit Committee is Mr. Chow Chun To, an independent non-executive Director, and other members include Ms. Wong Chi Yan and Dr. Kung Wai Chiu Marco, independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the website of the Stock Exchange and on the Company's website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, oversee the financial controls, internal control procedures and risk management system, effectiveness of the Company's internal audit function, audit plan and relationship with external auditors and review arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has complied with Rule 5.28 of the GEM Listing Rules with three members comprising independent non-executive Directors only and at least one of the members of the Audit Committee is an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee had reviewed the unaudited condensed consolidated financial statements of the Group for the three months ended 30 June 2023 with the management and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

By order of the Board
China Hongbao Holdings Limited
Cheng Jun
Chairman and Executive Director

Hong Kong, 8 August 2023

As at the date of this report, the Board comprises Mr. Cheng Jun and Mr. Yu Hua as executive Directors; and Mr. Chow Chun To, Dr. Kung Wai Chiu Marco and Ms. Wong Chi Yan as independent non-executive Directors.