

CHINA HONGBAO HOLDINGS LIMITED

中國紅包控股有限公司

(formerly known as Quantong Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8316

THIRD
QUARTERLY
REPORT
2022

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 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”) hereby presents the unaudited condensed consolidated results of the Group for the nine months ended 31 December 2022, together with the comparative unaudited figures for the corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and nine months ended 31 December 2022

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	3	25,002	17,264	55,028	29,895
Cost of services		(24,707)	(14,733)	(53,550)	(32,016)
Gross profit/(loss)		295	2,531	1,478	(2,121)
Other income	4	–	393	65	3,342
Administrative expenses		(5,890)	(3,325)	(13,266)	(9,652)
Finance costs	5	(432)	(5)	(1,515)	(53)
Loss before income tax	6	(6,027)	(406)	(13,238)	(8,484)
Income tax expense	7	–	(40)	–	(40)
Loss for the period		(6,027)	(446)	(13,238)	(8,524)
Other comprehensive expense Item that may be reclassified subsequently to profit or loss: Exchange difference arising on translation of foreign operations		–	–	(637)	–
Loss and total comprehensive expense for the period attributable to the owners of the Company		(6,027)	(446)	(13,875)	(8,524)
Loss per share		HK cents	HK cents	HK cents	HK cents
— Basic and diluted	8	(0.75)	(0.06)	(1.65)	(1.07)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2022

	Share capital	Share premium	Merger reserves	Capital reserve	Statutory reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2022 (Audited)	8,000	82,525	(51,705)	5,741	341	93	(96,834)	(51,839)
Loss for the period	-	-	-	-	-	-	(13,238)	(13,238)
Other comprehensive expense:								
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(637)	-	(637)
Loss and total comprehensive expense for the period	-	-	-	-	-	(637)	(13,238)	(13,875)
As at 31 December 2022 (Unaudited)	8,000	82,525	(51,705)	5,741	341	(544)	(110,072)	(65,714)
As at 1 April 2021 (Audited)	8,000	82,525	(51,705)	3,118	-	-	(86,074)	(44,136)
Loss and total comprehensive expense for the period	-	-	-	-	-	-	(8,524)	(8,524)
As at 31 December 2021 (Unaudited)	8,000	82,525	(51,705)	3,118	-	-	(94,598)	(52,660)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

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 Room 502, Tai Tung Building, 8 Fleming Road, Wan Chai, Hong Kong. The Company is an investment holding company and its shares were listed on GEM of the Stock Exchange on 10 August 2015. The Group is principally engaged in the foundation and other construction business and supply chain business in Hong Kong and the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's unaudited condensed consolidated financial statements for the nine months ended 31 December 2022 have been prepared in accordance with the accounting policies, which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the applicable disclosure provisions of the GEM Listing Rules.

The preparation of the unaudited condensed consolidated financial statements of the Group for the nine months ended 31 December 2022 is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgement in the process of applying the Group's accounting policies.

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2022 have not been audited by the Company's independent auditor, but have been reviewed by the audit committee (the "Audit Committee") of the Board.

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2022 have been prepared on the historical cost basis and 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 for the nine months ended 31 December 2022, the Group has consistently adopted HKFRS issued by HKICPA which are effective for the Group's financial year beginning on 1 April 2022. The Group has not early applied the new and revised HKFRS that have been issued by HKICPA but are yet to be effective.

3. REVENUE AND SEGMENT INFORMATION

The Group's revenue represents amount received and receivable from contracts with customers in the provision of foundation and other construction works and supply chain management in Hong Kong and in the PRC.

The executive Directors have been identified as the chief operating decision-maker, responsible for making strategic decisions, allocating resources and assessing performance of the operating segments.

In the current period, 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 supply chain management.

Nine months ended 31 December 2022

	Foundation and other construction works HK\$'000	Supply chain management HK\$'000	Total HK\$'000
Revenue	25,075	29,953	55,028
Cost of services	(27,035)	(26,515)	(53,550)
Segment results	(1,960)	3,438	1,478
Unallocated income			65
Unallocated corporate expenses			(13,266)
Finance costs			(1,515)
Loss before income tax			(13,238)
Income tax expense			-
Loss for the period			(13,238)

Nine months ended 31 December 2021

	Foundation and other construction works HK\$'000	Supply chain management HK\$'000	Total HK\$'000
Revenue	29,895	-	29,895
Cost of services	(32,016)	-	(32,016)
Segment results	(2,121)	-	(2,121)
Unallocated income			3,342
Unallocated corporate expenses			(9,652)
Finance costs			(53)
Loss before income tax			(8,484)
Income tax expense			(40)
Loss for the period			(8,524)

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 31 December		Nine months ended 31 December	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Hong Kong	9,517	12,290	23,791	24,921
The PRC	15,485	4,974	31,237	4,974
	25,002	17,264	55,028	29,895

4. OTHER INCOME

	Three months ended 31 December		Nine months ended 31 December	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Gain on disposal of property, plant and equipment	–	393	–	2,044
Gain on early termination of lease	–	–	–	1,291
Government subsidies	–	–	65	–
Others	–	–	–	7
	–	393	65	3,342

5. FINANCE COSTS

	Three months ended 31 December		Nine months ended 31 December	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Interest on lease liabilities	49	5	72	53
Imputed interest for shareholder loans	383	–	1,132	–
Interest on loan from other borrowings	–	–	311	–
	432	5	1,515	53

6. LOSS BEFORE INCOME TAX

	Three months ended 31 December		Nine months ended 31 December	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Loss before income tax is arrived at after charging:				
Employee benefit expense (including Directors' remuneration)	4,828	1,905	9,907	7,044
Depreciation of property, plant and equipment	551	260	923	1,416

7. INCOME TAX EXPENSE

	Three months ended 31 December		Nine months ended 31 December	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Current tax for the period:				
— Hong Kong profits tax	—	—	—	—
— PRC Enterprise Income Tax	—	40	—	40
Deferred tax	—	—	—	—
	—	40	—	40

Hong Kong profits tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the nine months ended 31 December 2022 and 2021. According to the Inland Revenue (Amendment) Bill 2017, profits tax rate for the first HK\$2 million of assessable profits of corporations is lowered to 8.25% with the excess assessable profits continue to be taxed at 16.5%.

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%.

No provision for Hong Kong profits tax or PRC Enterprise Income Tax has been made for the current and prior periods as the group companies which are subject to Hong Kong profits either incurred tax losses for the nine months ended 31 December 2022 or have tax losses brought forward to set off with the assessable profit for the nine months ended 31 December 2022.

8. LOSS PER SHARE

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

	Nine months ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of calculating basic loss per share	(13,238)	(8,524)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	800,000	800,000

Diluted loss per share were the same as basic loss per share as there were no potential dilutive ordinary shares outstanding for the nine months ended 31 December 2022 and 2021.

9. DIVIDEND

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2022 (2021: 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. The outbreak of the COVID-19 pandemic has been lasting for over two years and results in serious and unanticipated disruptions in business operation and the Hong Kong economy. Furthermore, the construction industry in Hong Kong is fragmented with increasing number of market players, resulting in keen competitions in the market and lower gross margin of construction projects. Despite the unfavourable conditions in Hong Kong economy and the construction industry which lead to continuous increase in construction costs due to labour shortage, increasingly stringent regulatory controls and rising construction material and operation costs, the Directors are of the view that the market conditions of the construction industry will start to improve 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 against such challenges that are commonly faced by all industry players. For the nine months ended 31 December 2022, the Group recorded revenue of approximately HK\$55.0 million, representing an increase of approximately 84.1% as compared to the revenue for the nine months ended 31 December 2021. The Group recorded overall gross profit margin of approximately 2.7% for the nine months ended 31 December 2022 as compared to the gross loss margin of approximately 7.1% for the nine months ended 31 December 2021.

In addition to continue the existing foundation works and other construction works business, the Group also explores other suitable business opportunities with a view to diversify its business. Having considered 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 citizen, such as fast-moving consumer goods and electronic appliances. Compared to traditional trading and service supply chain management companies, the Group believes that an integrated supply chain management company has a better profit model and can drive the future development of the Company. During the nine months ended 31 December 2022, the Group recorded revenue of approximately HK\$30.0 million from this business segment. The Directors consider the above new business was the first step in the business diversification and expansion of the Group's business portfolio. 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 nine months ended 31 December 2022 was approximately HK\$55.0 million, representing an increase of approximately HK\$25.1 million or 84.1% as compared to the revenue for the nine months ended 31 December 2021. The increase was mainly attributable to the new line of business in the supply chain industry in the PRC and the new foundation projects undertaken by the Group during the nine months ended 31 December 2022.

Cost of Services

The Group's cost of services increased from approximately HK\$32.0 million for the nine months ended 31 December 2021 to approximately HK\$53.6 million for the nine months ended 31 December 2022, representing an increase of approximately HK\$21.5 million or 67.3%. Such increase was generally consistent with the increase in revenue for the nine months ended 31 December 2022.

Gross Profit/(Loss) and Gross Profit/(Loss) Margin

For the nine months ended 31 December 2022, the Group recorded a gross profit of approximately HK\$1.5 million (2021: gross loss of approximately HK\$2.1 million) and the gross profit margin was approximately 2.7% (2021: gross loss margin of approximately 7.1%). The change from gross loss to gross profit was due to the gross profit generated from the new line of business in the supply chain industry in the PRC.

Administrative Expenses

The administrative expenses increased by approximately HK\$3.6 million or 37.4% from approximately HK\$9.7 million for the nine months ended 31 December 2021 to approximately HK\$13.3 million for the nine months ended 31 December 2022. The higher administrative expenses was mainly due to an increase in the staff costs and professional fees.

Loss and Total Comprehensive Expense Attributable to Owners of the Company

Net loss and total comprehensive expense for the nine months ended 31 December 2022 was approximately HK\$13.9 million (2021: approximately HK\$8.5 million). Such increase in net loss was mainly due to the increase in administrative expenses as mentioned above and the decrease in other income.

Dividend

The Board does not recommend the payment of dividend for the nine months ended 31 December 2022 (2021: nil).

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcements of the Company dated 5 January 2023 and 16 January 2023. On 5 January 2023, the Company entered into the subscription agreement with Hong Kong HaoXingShun Trading Co., Limited (the “**Subscriber**”), pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a total of 28,050,000 subscription shares of the Company at the subscription price of HK\$0.713 per subscription share (the “**Subscription**”). Completion of the Subscription took place on 16 January 2023 (the “**Completion**”). The 28,050,000 subscription shares represent (i) approximately 3.51% of the issued share capital of the Company immediately before Completion; and (ii) approximately 3.39% of the issued share capital of the Company immediately after Completion as enlarged by the issue and allotment of the subscription shares and as at the date of this report. The issued share capital of the Company increased from 800,000,000 shares of the Company (the “**Shares**”) to 828,050,000 Shares following Completion.

Save as disclosed in this report, there is no other important event affecting the Group since 31 December 2022 and up to the date of this report.

OTHER INFORMATION

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

As at 31 December 2022, 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 recorded in the register required to be kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 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	Approximate percentage of shareholding
Mr. Cheng Jun (<i>Note 1</i>)	Beneficial owner	890,000	0.11%

Note:

1. On 16 January 2023, the issued share capital of the Company increased from 800,000,000 Shares to 828,050,000 Shares following completion of the Subscription. Therefore, the percentage of shareholding of Mr. Cheng Jun was diluted from approximately 0.111% to 0.107%.

Save as disclosed above, as at 31 December 2022, 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 5.46 to 5.68 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 31 December 2022, 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	Approximate percentage of shareholding
QUANTONG GROUP HOLDINGS LIMITED (" Quantong ") (Note 1)	Beneficial owner	599,100,000	74.89%
Mr. Xing Yuan (Note 2)	Interest in a controlled corporation	599,100,000	74.89%
Mr. Fu Yik Lung (Note 3)	Person having a security interest in shares Beneficial owner	599,100,000 200,000	74.89% 0.025%

Notes:

- On 16 January 2023, the issued share capital of the Company increased from 800,000,000 Shares to 828,050,000 Shares following completion of the Subscription. Therefore, the percentage of shareholding of Quantong was diluted from approximately 74.89% to 72.35%.
- Mr. Xing Yuan, who resigned as an executive Director on 19 May 2022, beneficially owns the entire issued share capital of Quantong. Mr. Xing Yuan is deemed, or taken to be interested in all the Shares held by Quantong for the purpose of the SFO. Mr. Xing Yuan is a director of Quantong. On 16 January 2023, the issued share capital of the Company increased from 800,000,000 Shares to 828,050,000 Shares following completion of the Subscription. Therefore, the percentage of Shares in which Mr. Xing Yuan was interested was diluted from approximately 74.89% to 72.35%.

- Pursuant to a share charge dated 11 December 2020 executed by Quantong in favour of Mr. Fu Yik Lung, 599,100,000 Shares were pledged by Quantong in favour of Mr. Fu Yik Lung. Mr. Fu Yik Lung beneficially owns 200,000 Shares. On 16 January 2023, the issued share capital of the Company increased from 800,000,000 Shares to 828,050,000 Shares following completion of the Subscription. Therefore, the total percentage of Shares in which Mr. Fu Yik Lung was interested was diluted from approximately 74.91% to 72.37%.

Save as disclosed above, as at 31 December 2022, none of the substantial or significant shareholders or other persons, other than the Directors and chief executives of the Company whose interests are set out in the section “Other Information — Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above, 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 has adopted the share option scheme (the “**Share Option Scheme**”) on 6 July 2015. No share option has been granted, exercised, lapsed or cancelled under the Share Option Scheme since its adoption.

COMPETING INTERESTS

During the nine months ended 31 December 2022 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 interests 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 no less exacting than the required standard of dealings under Rules 5.48 to 5.68 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 nine months ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the nine months ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules as its corporate governance practice. To the best knowledge of the Board, the Company had complied with all applicable code provisions as set out in the CG Code during the nine months ended 31 December 2022.

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 included 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, internal control procedures and risk management system, audit plan and relationship with external auditors and 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 nine months ended 31 December 2022 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, 10 February 2023

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

* *For identification purposes only*