Linocraft Holdings Limited

東駿控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8383)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 MAY 2020

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 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.

*This announcement, for which the directors (the "**Directors**") of Linocraft 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 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 announcement 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 announcement misleading.*

FINANCIAL HIGHLIGHTS

- The Group's total revenue amounted to approximately RM148.3 million for the nine months ended 31 May 2020, increased by approximately 0.5% as compared to that of the same period in 2019.
- The gross profit amounted to approximately RM21.1 million for the nine months ended 31 May 2020, decreased by approximately 8.0% as compared to that of the same period in 2019.
- The Group recorded a net profit of approximately RM0.8 million for the nine months ended 31 May 2020.
- The Board does not recommend the payment of interim dividends for the nine months ended 31 May 2020.

FINANCIAL RESULTS

The board of Directors (the "**Board**") is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the three months and nine months ended 31 May 2020 (the "**Third Quarterly Financial Statements**") together with the comparative figures for the corresponding periods in 2019 as follows:

Condensed Consolidated Statement of Comprehensive Income
For the three months and nine months ended 31 May 2020

		Three months ended 31 May		Nine months ended 31 May	
		2020	2019	**2020**	2019
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	***RM'000***	*RM'000*	***RM'000***	*RM'000*
Revenue	4	**32,582**	53,677	**148,315**	147,606
Cost of sales		**(33,081)**	(44,614)	**(127,198)**	(124,655)
Gross (loss)/profit		**(499)**	9,063	**21,117**	22,951
Other operating income		**6,078**	3,397	**7,259**	6,770
Distribution costs		**(2,086)**	(1,660)	**(8,103)**	(6,388)
Administrative expenses		**(3,636)**	(3,904)	**(11,906)**	(10,735)
Other operating expenses		**(46)**	(401)	**(70)**	(491)
(Loss)/profit from operation		**(189)**	6,495	**8,297**	12,107
Finance costs		**(1,892)**	(2,022)	**(6,439)**	(5,902)
Share of loss of a joint venture		**(2)**	—	**—**	(5)
(Loss)/profit before income tax expense	5	**(2,083)**	4,473	**1,858**	6,200
Income tax expense	7	**(565)**	(88)	**(1,012)**	(293)
(Loss)/profit for the period		**(2,648)**	4,385	**846**	5,907
Other comprehensive (loss)/income, net of tax					
Items that may be reclassified subsequently to profit or loss					
— Exchange differences on translation to profit or loss		**(1,917)**	830	**(2,468)**	950
Total comprehensive (loss)/income for the period		**(4,565)**	5,215	**(1,622)**	6,857
		RM	*RM*	***RM***	*RM*
(Loss)/earnings per share					
Basic and diluted (loss)/earnings per share	8	**(0.33) sen**	0.55 sen	**0.11 sen**	0.74 sen

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 31 May 2020

	Share capital *RM'000*	Share premium *RM'000*	Merger reserve *RM'000*	Exchange reserve *RM'000*	Retained earnings *RM'000*	Total *RM'000*
Balance at 1 September 2018 (Audited)	4,304	35,967	8,548	(1,132)	31,056	78,743
Profit for the period	—	—	—	—	5,907	5,907
Other comprehensive income	—	—	—	950	—	950
Total comprehensive income	—	—	—	950	5,907	6,857
Balance at 31 May 2019 (Unaudited)	4,304	35,967	8,548	(182)	36,963	85,600
Balance at 1 September 2019 (Audited)	4,304	35,967	8,548	(1,145)	37,690	85,364
Profit for the period	—	—	—	—	846	846
Other comprehensive loss	—	—	—	(2,468)	—	(2,468)
Total comprehensive loss	—	—	—	(2,468)	846	(1,622)
Balance at 31 May 2020 (Unaudited)	4,304	35,967	8,548	(3,613)	38,536	83,742

NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 13 April 2017 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business in Hong Kong and Malaysia are located at Unit 1302, 13/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Central, Hong Kong and Lot 1769, Jalan Belati, Off Jalan Kempas Lama, Taman Perindustrian Maju Jaya, 81300 Johor Bahru, Johor Darul Takzim, Malaysia, respectively.

The shares of the Company (the "**Shares**") was listed on the GEM on 15 September 2017 by way of share offer. The Group is a well-established integrated offset printing and packaging solutions provider based in Malaysia.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention.

The functional currency of the Company is Hong Kong dollars ("**HK$**"), while the unaudited condensed consolidated financial statements are presented in Malaysian Ringgit ("**RM**"), which is the functional currency of the Company's major subsidiaries. The Directors consider that it is more appropriate to adopt RM as the Group's and the Company's presentation currency. All values are rounded to the nearest thousand except when otherwise indicated.

Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The unaudited condensed financial statements do not include all the information and disclosures required in the annual financial statements and thereby should be read in conjunction with the annual financial statements for the year ended 31 August 2019 ("**2019 Financial Statements**") which have been prepared in accordance with the accounting policies which conforms to the HKFRSs.

Adoption of new or revised HKFRSs

In the current period, the Group has applied all of the amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for the Group's financial period beginning on 1 September 2019. Except described below, the adoption of these amendments to HKFRSs had no material effect on the results and financial position of the Group and/or disclosures set out in these unaudited condensed consolidated financial statements for the current and/or prior accounting periods.

HKFRS 16 — Leases

HKFRS 16 superseded HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

As at 31 August 2019, the Group has non-cancellable operating lease commitments of approximately RM5,450,000. The Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 August 2019. As permitted by the transitional provision of HKFRS 16, the corresponding comparative figures were not restated. The weighted average lessee's incremental borrowing rates applied by relevant entities to the lease liabilities on 1 September 2019 ranged 4.56% to 9.3%.

The carrying amount of right-of-use assets as at 1 September 2019 comprises the following:

	RM'000
Right-of-use assets relating to operating leases recognised upon initial application of HKFRS16	10,434
Leased assets recognised previously under finance leases that reclassified from "Property, plant and equipment"	26,652
Right-of-use assets as at 1 September 2019	37,086

The reconciliation of operating lease commitment to lease liabilities is set out below:

	RM'000
Operating lease commitments as at 31 August 2019	5,450
Less:	
Lease liabilities discounted at relevant incremental borrowing rate at the date of initial application	(1,534)
Low value leases recognised on a straight-line basis as expense	(1,364)
Future interest charges	(2,241)
Add:	
Payments for optional extension periods not recognised as at 31 August 2019	7,070
Finance lease obligations recognised as at 31 August 2019	23,479
Lease liabilities as at 1 September 2019	30,860

New or revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[4]

1 Effective for annual periods beginning on or after 1 January 2020

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted

3 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

4 Effective for annual periods beginning on or after 1 January 2021

The Directors are currently assessing the possible impact of these new or revised standards on the Group's result and financial position in the first year of application.

Accounting estimates and assumptions are used in the preparation of financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately different from those estimates and assumptions. In preparing these unaudited condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2019 Financial Statements.

3. SEGMENT INFORMATION

(a) Business segment

The Group has been operating in one operating and reportable segment, being printing and manufacture of instruction manuals, insert, packaging products and printed paper labels. The chief operating decision maker make decisions based on the historical financial information of the Group prepared in accordance with HKFRS about resources allocation and performance assessment.

(b) Geographic information

The following table provides an analysis of the Group's revenue from external customers.

	Three months ended 31 May		Nine months ended 31 May	
	2020	2019	**2020**	2019
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RM'000	*RM'000*	***RM'000***	*RM'000*
Malaysia	**22,082**	39,390	**101,311**	113,872
Singapore	**1,292**	1,438	**5,075**	3,684
Philippines	**9,208**	12,849	**41,929**	30,050
	32,582	53,677	**148,315**	147,606

(c) Information about major customers

Revenue from external customers individually contributing 10% or more of the Group's revenue are as follow:

	Three months ended 31 May		Nine months ended 31 May	
	2020	2019	**2020**	2019
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RM'000	*RM'000*	***RM'000***	*RM'000*
Customer A	**6,141**	13,425	**34,282**	38,169
Customer B	**4,761**	*	**19,943**	*
Customer F	**8,477**	12,795	**41,207**	30,018

* Representing contributed less than 10% of the Group's revenue during the reporting periods.

4. REVENUE

Revenue includes the net invoiced value of goods sold earned by the Group. The amounts of revenue recognised during the period are as follows:

	Three months ended 31 May		**Nine months ended 31 May**	
	2020	2019	**2020**	2019
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RM'000	*RM'000*	***RM'000***	*RM'000*
Sales of productions products:				
— Packaging	**21,830**	28,151	**87,588**	81,517
— Insert	**5,751**	15,349	**41,719**	39,574
— Instruction manual	**4,942**	10,121	**18,907**	26,298
— Label	**59**	56	**101**	217
	32,582	53,677	**148,315**	147,606

5. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

	Three months ended 31 May		**Nine months ended 31 May**	
	2020	2019	**2020**	2019
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RM'000	*RM'000*	***RM'000***	*RM'000*
(Loss)/profit before income tax expense is arrived at after charging:				
Cost of inventories sold	**33,081**	44,614	**127,198**	124,655
Depreciation of property, plant and equipment				
— Owned	**653**	1,220	**3,383**	3,194
— Held under finance leases	**—**	880	**—**	2,725
Employee costs	**8,292**	6,164	**27,684**	24,690
Lease payments under short term operating lease				
— Rental of equipment	**361**	285	**757**	618
— Rental of premises	**124**	843	**446**	2,697
Depreciation of right-of-use assets	**2,404**	—	**6,306**	—

6. DIVIDENDS

The Board does not recommend the payment of interim dividends for the nine months ended 31 May 2020 (2019: nil).

7. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statements of comprehensive income represents:

	Three months ended 31 May		Nine months ended 31 May	
	2020	2019	**2020**	2019
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RM'000	*RM'000*	***RM'000***	*RM'000*
Current tax — Corporate income tax — charge for the period	**565**	88	**1,012**	293
Deferred tax	**—**	—	**—**	—
Income tax expense	**565**	88	**1,012**	293

Hong Kong profit tax is calculated at tiered rate of 8.25% on the first HK$2 million and 16.5% for the remainder on the estimated assessable profits of subsidiaries operating in Hong Kong for the nine months ended 31 May 2020 and 2019. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

Corporate income tax in Malaysia is calculated at the statutory rate of 24% (2019: 24%) of the estimated taxable profit for the nine months ended 31 May 2020. Companies incorporated in Malaysia with paid up capital of RM2,500,000 below can enjoy lower corporate tax rate in Malaysia of 17% (2019: 18%) on the first RM600,000 (2019: RM500,000) taxable profit and 24% on the taxable profit in excess of RM600,000 and RM500,000 for the nine months ended 31 May 2020 and 2019 respectively.

Subsidiary located in Philippines was subject to Philippines income tax at the rate of 30% (2019: 30%) on the estimated taxable income during the nine months ended 31 May 2020. Starting from the fourth taxable year after the year the business operations commenced, entities incorporated in the Philippines are required to pay tax equivalent to the higher of 30% (2019: 30%) regular corporate income tax ("**RCIT**") on taxable income and the 2% (2019: 2%) minimum corporate income tax ("**MCIT**") on gross income. Gross income is equivalent to revenue less direct costs. Any excess of the MCIT over RCIT can be carried forward and credited against RCIT for three succeeding taxable years.

8. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the (loss)/earnings attributable to owners of the Company and the weighted average number of ordinary Shares in issue during the respective periods.

The calculation on basic and diluted (loss)/earnings per share is based on the following information:

	Three months ended 31 May		**Nine months ended 31 May**	
	2020	2019	**2020**	2019
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RM'000	*RM'000*	***RM'000***	*RM'000*
(Loss)/earnings				
(Loss)/profit for the period attributable to owners of the Company	**(2,648)**	4,385	**846**	5,907
	Number of Shares			
Shares				
Weighted average number of Shares in issue during the periods	**800,000,000**	800,000,000	**800,000,000**	800,000,000

Diluted (loss)/earnings per share were the same as the basic (loss)/earnings per share as the Group had no dilutive potential shares during the nine months ended 31 May 2020 and 2019.

9. EVENTS AFTER THE REPORTING PERIOD

Save as the spread of novel coronavirus disease ("**COVID-19**") as discussed in the Management Discussion and Analysis section, the Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 May 2020 and up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Our Group is a well-established integrated offset printing and packaging solutions provider in Malaysia with more than 47 years of experience. Moreover, the Group has also set foot in the Philippines in June 2016 to set up our printing and packaging production line to better serve our customers in the region. We principally provide offset printing services and packaging boxes, instruction manuals and inserts to our customers. We continue to focus on strengthening our market position in the offset printing and packaging industry.

Our Group offers a wide range of packaging products to meet our customers' packaging needs. These products can be broadly categorised into (i) packaging; (ii) inserts; (iii) instruction manuals; and (iv) labels.

The following table sets forth the details of our Group's revenue by types of products for the nine months ended 31 May 2020 and 2019:

	Nine months ended 31 May			
	2020		2019	
	(Unaudited)		(Unaudited)	
	RM'000	*%*	*RM'000*	*%*
Sales of production products:				
— Packaging	**87,588**	**59.1**	81,517	55.2
— Insert	**41,719**	**28.1**	39,574	26.8
— Instruction manual	**18,907**	**12.7**	26,298	17.8
— Labels	**101**	**0.1**	217	0.2
	148,315	**100.0**	147,606	100.0

Our Group's total revenue amounted to approximately RM148.3 million and RM147.6 million for the nine months ended 31 May 2020 and 2019 respectively. Approximate 68.3% (2019: 77.1%) of our revenue was attributable to our customers in Malaysia, with the remaining from Singapore and the Philippines during the reporting periods.

Packaging

Packaging accounts for our largest business segment of our Group's business. Packaging includes the manufacturing of packaging boxes and rigid boxes. Our packaging boxes and rigid boxes are produced with multi-colour sheetfed offset printed materials and manufactured using technologically advanced machines and colour management system of international standards such as Ugra/Fogra Media Wedge CMYK V3.0 to match the requirements of our customers. Our packaging not only serves as a marketing tool but most importantly as a protection for our customers' products. Our Group also provides product development services to customers who require packaging design for their products. Furthermore, our Group also has the capability to create prototype based on the design that was provided to us or created by our team. We have an industrial cutting machine that can produce such prototype to help customers visualise the packaging before mass production.

Our revenue from the production of packaging were approximately RM87.6 million and RM81.5 million for the nine months ended 31 May 2020 and 2019 respectively, representing approximately 59.1% and 55.2% of our total revenue, respectively.

Inserts

The production of inserts is our second largest business segment. Inserts are protective packaging used inside boxes to partition and protect products from damage. It is used to keep the products and accessories in position so that they will be neatly presented to the end consumers. Our Group is involved in designing and die-cutting of corrugated boards into desired shapes to fit and protect the customers' products in the packaging boxes.

Our revenue from the production of inserts were approximately RM41.7 million and RM39.6 million for the nine months ended 31 May 2020 and 2019 respectively, representing approximately 28.1% and 26.8% of our total revenue, respectively.

Instruction Manuals

The production of instruction manuals is the third largest segment. Our Group also provides kitting services by packing related printed materials to be grouped together with instruction manuals into a package. This service provides convenience to our customers by enabling them to liaise with one single party for their packaging needs.

Our revenue from the production of instruction manuals were approximately RM18.9 million and RM26.3 million for the nine months ended 31 May 2020 and 2019 respectively, representing approximately 12.7% and 17.8% of our total revenue, respectively.

Labels

The production of paper-based labels is a small segment of our Group's business, primarily for food and beverage sector. Such labels are mainly used for branding of canned/bottled products. The printing of labels has become a smaller business segment of our Group due to our Group's expansion into other business segments.

Our revenue from the production of labels were approximately RM0.1 million and RM0.2 million for the nine months ended 31 May 2020 and 2019 respectively, representing approximately 0.1% and 0.2% of our total revenue, respectively.

FUTURE PROSPECTS AND OUTLOOK

Our Group continues to focus strengthening its market position in the offset printing and packaging industry. Currently, we are negotiating with a number of reputable international brands from different industries to grow our business in Malaysia and the Philippines.

Our Group has set up a production plant, performing post-press processes, namely laminating and diecutting, in the Philippines, which has commenced production since October 2017. In March 2019, the Group has moved out from the former production plant performing the post-press processes to the then existing production plant. By centralizing the production machinery, this can help the Group to achieve a better efficiency in operation and reducing transportation cost between the two production plants. The existing production plant also come with a new warehouse which the size is approximately 45,000 square feet ("**sqf**"). Currently, the orders from a contract manufacturer in the Philippines are fulfilled by our local production plant and partially supported by production plant in Malaysia.

Our Philippines factory is fully equipped with completed production line to meet the requirements for production of packaging. This including one KBA 164 printing press, one CTP machine, two Auto Diecut machines, two Manual Diecut machines, one Stitching Machine, one Polar Cutter, one Laminating machine and one ECT test machine for QA laboratory use.

Moreover, the new warehouse for Malaysia plant is officially completed and has begun to operate. The size of the new warehouse is approximately 72,000 sqf which equipped with 16 loading bays. It help us to reduce the reliance on external warehouse and enhance the efficiency of inventory management.

Due to the sudden and rapid spread of the COVID-19 across the globe in early 2020 (the "**Pandemic**"), a series of precautionary and control measures have been undertaken by governments across the world including Hong Kong, Malaysia and the Philippines.

The Malaysia government announced the implementation of the "Movement Control Order" in March 2020 ("**MCO**"). During the MCO period, most of the businesses and factories are not allowed to operate except for those involved in essential services covering the sectors of water, electricity, energy, telecommunications, postal, transportation, irrigation, oil, gas, fuel, lubricants, broadcasting, finance, banking, health, pharmacy, fire, prison, port, airport, safety, defense, cleaning, retail and food supply. Included in the list of essential services is packaging and ink which is part of the supply chain for essential services and therefore also exempted and allowed to operate. However, the exemption is not automatic as each individual company is required to apply for the exemption from the Ministry of International Trade and Industry ("**MITI**") and is subject to MITI's approval. Hence, our Malaysia plant announced closure of business on 18 March 2020 and only resumed operations with skeletal workforce upon receiving the approval from MITI on 28 March 2020. During that period, the Malaysia plant was operating to supply the packaging products to customers involved in food and medical sectors.

Moving forward to the month of May 2020, although the MCO was still in force, the Malaysia Government announced that all companies, which were allowed to resume operations with skeletal workforce with approval by MITI, were also allowed to resume their daily operations at full workforce after 28 April 2020. Therefore, our Malaysia plant operated at full-capacity from 4 May 2020 upon the receipt of approval from MITI. Prime Minister of Malaysia Muhyiddin Yassin announced on 7 June 2020 that the MCO would enter into a "recovery phase" beginning from 10 June 2020 till the end of August this year ("**RMCO**") as part of the country's exit strategy from the MCO. Under the RMCO, most of the economic sectors would be reopened although the country's border would remain closed. Meanwhile, our Malaysia plant also implemented the required standard operating procedures and took extra preventive measures including, checking body temperature of all employees and visitors, enhancing medical attention for foreign workers, increasing frequency of disinfection within the company premises, increasing the list of panel clinic as well as practicing social distancing in the office and factory premises.

Similarly, in Philippines, the local government has declared a partial lockdown on 12 March 2020 which was subsequently expanded to a total lockdown on the entire Luzon area on 16 March 2020. Although the Philippines Economic Zone Authority ("**PEZA**") headquarters published a memo on 13 March 2020 stating that PEZA related services will continue to resume and companies registered under PEZA shall remain operational with skeletal workforce or work-from-home basis. The Philippines plant also took similar preventive measures as the Malaysia plant to ensure the health of the workforce while resuming operations.

On 15 May 2020, PEZA published a memo which stated that safety measures must be in place before lifting of ECQ (Enhanced Community Quarantine) to GCQ (General Community Quarantine) which allowed PEZA registered companies to resume operations with full workforce. Our Philippines plant implemented the required safety measures and was allowed to run full operations on the following day of 16 May 2020. However, we anticipate the partial lock down will still impact our business, such as difficulty on delivery for raw material from our suppliers due to road closures and other logistic delays.

Due to disruption of business activities mentioned above and weakened sentiment in customer consumption, our operations and financial performance will be adversely impacted for the second half of the year. Our senior management is closely monitoring the market situation and continuously evaluating the impact of the Pandemic on the Group's operation and financial performance.

Despite of the Pandemic, Directors are staying positive to the business of the Company, strive to create long term sustainable value for our Company and shareholders.

FINANCIAL REVIEW

Revenue

Revenue for the nine months ended 31 May 2020 increased by approximately 0.5% or approximately RM0.7 million as compared to that of the previous period in 2019. The increase in revenue was mainly due to the increase in sales of packaging and insert, where there was an increase in demand derived from major customers, which was partially offset by the decrease in sales of instruction manual. The revenue contributed by the top five customers increased from approximately RM110.2 million for the nine months ended 31 May 2019 to RM119.2 million for the nine months ended 31 May 2020, which accounted for 74.7% and 80.4% of our total revenue for the corresponding periods, respectively.

Cost of Sales

	Nine months ended 31 May	
	2020	2019
	(Unaudited)	(Unaudited)
	RM'000	*RM'000*
Material costs	**83,311**	85,438
Direct labour	**19,138**	20,270
Manufacturing overhead	**24,749**	18,947
	127,198	124,655

Cost of sales comprises mainly (i) material costs (paper, facer, glue, chemical and plates); (ii) direct labour; and (iii) manufacturing overheads (utilities costs, depreciations expenses, subcontracting fee and repair and maintenance costs).

In line with the increase in revenue, the cost of sales for the nine months ended 31 May 2020 increased by approximately 2.0% or RM2.5 million as compared to that of the previous period in 2019. The increase in cost of sales was due to increase in subcontracting works and manufacturing overhead as a result of increase in depreciation, cost for foreign workers and repair and maintenance.

Gross Profit and Gross Profit Margin

Our gross profit decreased about 8.0% from RM23.0 million for the nine months ended 31 May 2019 to RM21.1 million for the nine months ended 31 May 2020. Our overall gross profit margin decreased by 1.3% from approximately 15.5% for the nine months ended 31 May 2019 to approximately 14.2% for the nine months ended 31 May 2020. Due to rapid spread of the COVID-19, both Malaysia and the Philippines government have implemented measures including the lockdown in the countries in order to control the spread and reduce the scale of the infection. As a result of the control measures adopted and the business disruption, the revenue has dropped approximately 39.3% for the three months ended 31 May 2020, as compared to the same corresponding period last year and the gross profit margin has shrunk.

Distribution Costs

Our distribution expenses mainly consist of (i) salary expenses and staff benefit which mainly represents the expenses in salary and staff benefits payable to our marketing department; (ii) sales commission; (iii) entertainment and promotional expenses; and (iv) travelling and transport expenses. Our distribution expenses increased about 26.8% from RM6.4 million for the nine months ended 31 May 2019 to RM8.1 million for the nine months ended 31 May 2020. The overall distribution costs were increased as compared to the same corresponding period last year.

Administrative Expenses

The administrative expenses were approximately RM11.9 million for the nine months ended 31 May 2020 (2019: RM10.7 million). Our administrative expenses mainly consist of (i) salary expenses and staff benefits which mainly represents the expenses in salary and staff benefits payable to our administrative staff including our Directors; (ii) professional and consultant fees; and (iii) others such as repair and maintenance for office equipment, bank charges and depreciation of property, plant and equipment which mainly represents the depreciation expenses for our office equipment as well as the depreciation of right-of-use assets.

Finance Costs

Finance costs represented interest on bank overdraft, bank borrowings, finance lease and lease liabilities. For the nine months ended 31 May 2020 and 2019, financial cost amounted to approximately RM6.4 million and RM5.9 million, respectively. The increase was mainly due to the initial measurement of the interest on lease liabilities during the reporting period.

Share of Loss of a Joint Venture

Our Group has 50% equity interest in Linocraft Singapore Pte. Ltd, which engages in trading business for packaging and printing related products. The share of loss of a joint venture amounted to nil for the nine months ended 31 May 2020 (2019: RM5,000).

Net Profit and Earnings per Share

As a result of the foregoing, our Group's net profit was RM0.8 million for the nine months ended 31 May 2020 (2019: RM5.9 million). The Group's earnings per share for the nine months ended 31 May 2020 was RM0.11 sen (2019: RM0.74 sen).

DIVIDENDS

The Board does not recommend the payment of interim dividends for the nine months ended 31 May 2020 (2019: nil).

OTHER INFORMATION

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As at 31 May 2020, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**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 or short positions which they were taken or deemed to have 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 ("**Model Code**") relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange were as follows:

(i) ***Interests in the Company***

Name of Directors	Nature of interest	Number of Shares held[1]	Percentage of shareholding
Mr. Ong Yoong Nyock ("**Mr. Ong**")[2]	Interest of a controlled corporation	408,000,000(L)	51.00%
Mr. Tan Woon Chay	Beneficial owner	1,500,000(L)	0.19%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) Mr. Ong beneficially owns 50% of Charlecote Sdn. Bhd. ("**Charlecote**") which in turn owns 70% of the issued share capital of Linocraft Investment Pte Limited ("**Linocraft Investment**"). Linocraft Investment owns 51% of the issued share capital of our Company. By virtue of the SFO, Mr. Ong is deemed to be interested in the Shares held by Linocraft Investment.

(ii) ***Interests in associated corporation of our Company***

Name of Directors	Name of associated corporation	Capacity	Number of Shares	Percentage of shareholding
Mr. Ong[(1)]	Linocraft Investment	Beneficial owner and interest of a controlled corporation	8,050	80.50%
	Charlecote	Beneficial owner	2	100.00%
Mr. Tan Woon Chay	Linocraft Investment	Beneficial owner	1,950	19.50%

Note:

(1) Charlecote, which holds 70% of Linocraft Investment, is held as to 50% by Mr. Ong and 50% by Ms. Yong Kwee Lian ("**Mrs. Ong**"). By virtue of the SFO, Mr. Ong is deemed to be interested in all the shares in Charlecote and the shares of Linocraft Investment held by Charlecote.

Save as disclosed above, as at 31 May 2020, none of the Directors or chief executives of the Company had, or was deemed to have, any interests or short positions 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Model Code.

Substantial Shareholders' Interests and Other Persons' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 May 2020, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall 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 required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Nature of interest	Interests in Shares(1)	Percentage of shareholding
Linocraft Investment	Beneficial owner	408,000,000(L)	51.00%
Charlecote(2)	Interest of a controlled corporation	408,000,000(L)	51.00%
Mrs. Ong(3)	Interest of spouse	408,000,000(L)	51.00%
Stan Cam Holdings Limited ("**Stan Cam**")	Beneficial owner	120,000,000(L)	15.00%
Ralexi Investment Holdings Limited(4)	Interest of a controlled corporation	120,000,000(L)	15.00%
Mr. Gan Ker Wei ("**Mr. Gan**")(5)	Interest of a controlled corporation	120,000,000(L)	15.00%
Mrs. Amy Ong Lai Fong(6)	Interest of spouse	120,000,000(L)	15.00%

Notes:

(1) The letter "L" denotes long position in the Shares.

(2) Charlecote holds 70% of the issued share capital of Linocraft Investment, which in turn owns 51% of our Company. By virtue of the SFO, Charlecote is deemed to be interested in the Shares held by Linocraft Investment.

(3) Mrs. Ong is the spouse of Mr. Ong. By virtue of the SFO, Mrs. Ong is deemed to be interested in the Shares held by Charlecote Bhd. and Mr. Ong.

(4) Stan Cam is owned as to 75% by Ralexi Investment Holdings Limited. By virtue of the SFO, Ralexi Investment Holdings Limited is deemed to be interested in the Shares held by Stan Cam.

(5) Stan Cam is owned as to 75% by Ralexi Investment Holdings Limited. Ralexi Investment Holdings Limited is wholly-owned by Mr. Gan. By virtue of the SFO, Mr. Gan is deemed to be interested in the Shares held by Stan Cam.

(6) Mrs. Amy Ong Lai Fong is the spouse of Mr. Gan. By virtue of the SFO, she is deemed to be interested in the Shares held by Mr. Gan.

Save as disclosed above, as at 31 May 2020, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall 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 required to be kept by the Company under Section 336 of the SFO.

Share Option Scheme

The Company has not adopted any share option scheme.

Purchase, Sale or Redemption of the Company's Listed Securities

During the nine months ended 31 May 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

Competing Interests

As confirmed by the Directors, the controlling shareholders and their respective close associates do not have any interests in any business, apart from the business operated by members of the Group, which competes or is likely to compete, directly or indirectly, with the business of the Group during the nine months ended 31 May 2020.

Compliance Adviser's Interests

As at 31 May 2020, neither Ample Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or close associates has any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of the GEM Listing Rules.

Directors' Securities Transactions

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.46 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 nine months ended 31 May 2020.

Corporate Governance Code

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company's corporate governance practices are based on the principles of good corporate governance as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "**CG Code**") and in relation to, among others, our Directors, Chairman and Chief Executive Officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with the shareholders of the Company.

To the best knowledge of the Board, save for the deviation from the code provision E.1.2 as explained below, the Company had complied with the code provisions in the CG Code during the nine months ended 31 May 2020.

Pursuant to code provision E.1.2 of the CG Code, the chairman of the Board (the "**Chairman**") should attend the annual general meeting (the "**AGM**"). However, Mr. Ong Yoong Nyock, being the Chairman, was unable to attend the AGM held on 9 January 2020 due to his other prior engagement. Mr. Ong invited Mr. Tan Woon Chay, an executive Director and chief executive officer to chair and answer questions from Shareholders at the AGM.

Audit Committee

Our Company established an Audit Committee pursuant to a resolution of our Directors passed on 25 August 2017 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code has been adopted. The primary duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and relationship with external auditors, and arrangements to enable employees of the Company to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters of the Company and performing the Company's corporate governance functions.

The Audit Committee consists of three members who are Mr. Liew Weng Keat, Mr. Teoh Cheng Tun and Mr. Choy Wing Keung David. Mr. Choy Wing Keung David is the chairman of the Audit Committee. The Third Quarterly Financial Statements have not been audited by the Company's auditor, but have been reviewed by the Audit Committee.

By order of the Board
Linocraft Holdings Limited
Tan Woon Chay
Executive Director

Hong Kong, 15 July 2020

As at the date of this announcement, the executive Directors are Mr. Ong Yoong Nyock and Mr. Tan Woon Chay and the independent non-executive Directors are Mr. Choy Wing Keung David, Mr. Liew Weng Keat and Mr. Teoh Cheng Tun.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for a minimum period of seven days from the date of its publication and on the Company's website at http://www.linocraftprinters.com.