

TARGET

Intelligence Report

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KWONG LUEN ENGINEERING HOLDINGS LTD: THANK YOU, MR KWOK, FOR YOUR MONEY !

While it is not stated in the Share Offer Prospectus of Kwong Luen Engineering Holdings Ltd (廣聯工程控股有限公司) (Code: 1413, Main Board, The Stock Exchange of Hongkong Ltd) in terms with which the man in the street would, immediately, be able to recognise and to identify, it is a fact that Sun Hung Kai Properties Ltd (新鴻基地產發展有限公司) (Code: 16, Main Board, The Stock Exchange of Hongkong Ltd) has, indirectly, been ‘feeding’ this foundation works contractor with very material work contracts, over the past 25 years.

Which must mean that Sun Hung Kai Properties Ltd, via its wholly owned subsidiary – Sanfield (Management) Ltd (新輝[建築管理]有限公司), a company, incorporated in the **Hongkong Special Administrative Region (HKSAR)** of the **People’s Republic of China (PRC)** – has been the largest single customer since Kwong Luen Engineering Holdings Ltd first commenced business in the HKSAR in 1995.

Sanfield (Management) Ltd, designated as, simply, ‘*Customer A*’, in the Share Offer Prospectus, remains the largest single provider of work, presented to the Management of Kwong Luen Engineering Holdings Ltd, aggregating in the many tens of millions of dollars, representing 66.20 percent, 68.60 percent, 54.80 percent and 35.60 percent of the Total Revenues of Kwong Luen Engineering Holdings Ltd with regard to the 41 months, ended August 31, 2020, respectively.

The aggregate amount of the contracts, awarded to Kwong Luen Engineering Holdings Ltd by Sanfield (Management) Ltd, in respect of the above-mentioned 41 months, was not less than \$HK600,599,000.00.

The Initial Public Offering (IPO) Of Kwong Luen Engineering Holdings Ltd

Senior Management of Kwong Luen Engineering Holdings Ltd published and disseminated its 490-Page Share Offer Prospectus in the HKSAR on or about Friday, February 26, 2021.

Management put 250 million, one-cent Shares on the block, at the indicative Offer Price Per Share, ranging from a low of 50 cent to a high of 54 cents.

HKSAR Investors were given the opportunity to subscribe to 25 million Public Offer Shares (the Public Offer Shares tranche) and (presumably) International Investors – Institutional

Investors, Professional Investors, and select, Well-Heeled Investors, along with their corporate entities in which this class of investors was deemed to hold equity control, legally and beneficially – were induced to put in valid applications for a goodly part of the 225 million Placing Shares on Offer (the Placing Shares tranche).

On Wednesday, March 10, 2021, Management of Kwong Luen Engineering Holdings Ltd, in an Announcement as to the Offer Price and Allotment Results, informed the subscribers of Offer Shares that the Offer Price Per Share had been struck at 54 cents – the highest level of the Indicative Offer Price range – and that Management anticipated netting about \$HK97.10 million from the Share Offer.

With regard to the Public Offer Shares tranche, at Page Three of the March 10, 2021 Announcement, one was informed that it had *‘been very significantly over-subscribed.’*

It was stated that valid applications for a total of 1,357,250,000 Public Offer Shares, equivalent to about 54.29 times the 25 million Public Offer Shares, initially available, had been received.

As for the Placing Shares tranche, it was described as having been *‘slightly over-subscribed’*, representing 1.05 times the total number of Placing Shares, initially available.

At Pages Nine and 10 of this Announcement, one was told as to how Management presently intended to utilise the net proceeds of the Share Offer:

- Approximately, \$HK39.90 million, that is about 41.10 percent of the net proceeds of the Share Offer, *‘will be used for financing the up-front costs of our projects’*;
- Approximately, \$HK36.50 million, that is about 37.50 percent of the net proceeds of the Share Offer, *‘will be used to purchase machinery comprising of 13 excavators and one crawler crane’*;
- Approximately, \$HK15.50 million, that is about 16.00 percent of the net proceeds of the Share Offer, *‘will be used for further expanding and strengthening our manpower by recruiting one site agent, one engineer, two quantity surveyors, one safety officer, three site foremen, 20 site workers, four machinery operators and two accounting staff’*; and,
- Approximately, \$HK5.20 million, that is about 5.40 percent of the net proceeds of the Share Offer, *‘will be used for purchasing a building information modeling software together with certain ancillary supporting hardware device.’*

The History And Business Of Kwong Luen Engineering Holdings Ltd

At Page 99 of the Share Offer Prospectus of Kwong Luen Engineering Holdings Ltd, one was given a very brief ***‘OVERVIEW’*** of the history of the Company as follows:

‘Our Group principally engages in the provision of foundation services as a subcontractor in Hong Kong. The history of our Group can be traced back to 1995, when Mr. Yip (Mr Yip Kwong Cheung [葉廣祥]) contributed to the establishment of Kwong Luen Engineering (Kwong Luen Engineering Ltd [廣聯工程有限公司]), a company incorporated in Hongkong on May 25, 1995) our Group’s principal operating subsidiary, to provide foundation services such as ELS (Excavation and Lateral Support Works) and other associated works including pile cap construction, underground drainage works and site formation works.

‘Mr. Yip had accumulated about 30 years of experience in the foundation industry and construction project management. Based on his years of practical experience, expertise and network in the foundation industry and being confident in the vast development potential and prospects of the construction industry in Hong Kong, Mr. Yip, together with an independent third party, established Kwong Luen Engineering.

‘Our Group endeavours to provide quality foundation services to our customers. As at the Latest Practicable Date (February 17, 2021), Kwong Luen Engineering is a registered specialist trade contractor and a registered subcontractor with the Construction Industry Council. Our Directors consider that we have successfully established a good reputation in the industry with our proven track record. Over the years, Kwong Luen Engineering has been working with several building contractors and foundation works contractors in Hong Kong as our major customers, and we have gained project exposure on sizeable projects in Hong Kong.’

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