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## **Kwong Man Kee Group Limited**

**鄺文記集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8023)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 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 that the companies listed on GEM 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 of the Stock Exchange 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 Kwong Man Kee Group Limited (the “**Company**”, 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 of Hong Kong Limited (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.*

## **HIGHLIGHTS**

- For the year ended 31 March 2020, the revenue of the Group decreased to approximately HK\$95.0 million, or by 19.4%, from approximately HK\$117.9 million for the year ended 31 March 2019.
- The Group's gross profit decreased by approximately HK\$3.3 million, or 10.2%, from approximately HK\$32.7 million for the year ended 31 March 2019 to approximately HK\$29.4 million for the year ended 31 March 2020. The gross profit margin of the Group increased from 27.8% for the year ended 31 March 2019 to 30.9% for the year ended 31 March 2020.
- The profit of the Group decreased from approximately HK\$9.9 million for the year ended 31 March 2019 to approximately HK\$6.1 million for the year ended 31 March 2020.
- The Board does not recommend the payment of a final dividend for the year ended 31 March 2020. (2019: HK0.7 cents per share).

## ANNUAL RESULTS

The board of directors (the “**Board**”) of the Company is pleased to announce the consolidated financial results of the Group for the year ended 31 March 2020, together with the comparative figures for the previous year as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	<i>Note</i>	<b>Year ended 31 March</b>	
		<b>2020</b>	2019
		<b>HK\$</b>	<b>HK\$</b>
<b>Revenue</b>	3	<b>95,024,421</b>	117,922,836
Cost of sales	4	<b>(65,644,929)</b>	(85,195,317)
<b>Gross profit</b>		<b>29,379,492</b>	32,727,519
Other (losses)/gains		<b>(9,681)</b>	69,018
Impairment loss on trade and retention receivables and contract assets	8, 9	<b>(1,028,640)</b>	(242,240)
General and administrative expenses	4	<b>(20,406,014)</b>	(20,750,594)
<b>Operating profit</b>		<b>7,935,157</b>	11,803,703
Finance costs, net	5	<b>(316,847)</b>	(303,561)
<b>Profit before income tax</b>		<b>7,618,310</b>	11,500,142
Income tax expense	6	<b>(1,482,564)</b>	(1,550,729)
<b>Profit for the year</b>		<b>6,135,746</b>	9,949,413
<b>Profit/(loss) for the year attributable to:</b>			
– Owners of the Company		<b>6,212,831</b>	9,979,511
– Non-controlling interests		<b>(77,085)</b>	(30,098)
		<b>6,135,746</b>	9,949,413
<b>Other comprehensive loss:</b>			
Item that may be reclassified to profit or loss			
– Exchange difference on translation of foreign operations		<b>(804)</b>	–
Other comprehensive loss, net of tax		<b>(804)</b>	–
Total comprehensive income for the year		<b>6,134,942</b>	9,949,413
<b>Total comprehensive income/(loss) attributable to:</b>			
– Owners of the Company		<b>6,212,027</b>	9,979,511
– Non-controlling interests		<b>(77,085)</b>	(30,098)
		<b>6,134,942</b>	9,949,413
<b>Earnings per share attributable to owners of the Company</b>			
– Basic and diluted (HK cents per share)	7	<b>1.04</b>	1.66

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 MARCH 2020*

	<i>Note</i>	<b>As at 31 March</b>	
		<b>2020</b>	2019
		<b>HK\$</b>	<b>HK\$</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>10,429,843</b>	40,845,046
Right-of-use assets		<b>27,837,217</b>	—
		<u><b>38,267,060</b></u>	<u>40,845,046</u>
<b>Current assets</b>			
Inventories		<b>13,911,727</b>	11,862,372
Trade and retention receivables	8	<b>36,090,790</b>	34,817,020
Prepayments and other receivables		<b>1,373,601</b>	1,271,401
Contract assets	9	<b>9,921,105</b>	5,394,559
Cash and cash equivalents		<b>19,612,765</b>	23,627,331
		<u><b>80,909,988</b></u>	<u>76,972,683</u>
<b>Total assets</b>		<u><b>119,177,048</b></u>	<u>117,817,729</u>
<b>EQUITY</b>			
Share capital		<b>6,000,000</b>	6,000,000
Reserves		<b>61,282,259</b>	61,283,063
Retained earnings		<b>17,803,615</b>	15,793,515
		<u><b>85,085,874</b></u>	<u>83,076,578</u>
<b>Non-controlling interests</b>		<u><b>(92,375)</b></u>	<u>(15,098)</u>
<b>Total equity</b>		<u><b>84,993,499</b></u>	<u>83,061,480</u>

		<b>As at 31 March</b>	
	<i>Note</i>	<b>2020</b>	2019
		<b>HK\$</b>	<b>HK\$</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		<b>127,299</b>	49,400
Lease liabilities		<b>83,129</b>	–
Finance lease payables		–	414,976
		<u><b>210,428</b></u>	<u>464,376</u>
<b>Current liabilities</b>			
Trade payables	10	<b>16,005,204</b>	16,724,380
Accruals and other payables		<b>1,360,696</b>	2,009,452
Contract liabilities	9	<b>4,457,487</b>	3,702,276
Bank borrowings	11	<b>10,130,503</b>	10,748,991
Lease liabilities		<b>590,125</b>	–
Finance lease payables		–	393,411
Current income tax liabilities		<b>1,429,106</b>	713,363
		<u><b>33,973,121</b></u>	<u>34,291,873</u>
<b>Total liabilities</b>		<u><b>34,183,549</b></u>	<u>34,756,249</u>
<b>Total equity and liabilities</b>		<u><b>119,177,048</b></u>	<u>117,817,729</u>

# NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

*FOR THE YEAR ENDED 31 MARCH 2020*

## **1 GENERAL INFORMATION**

Kwong Man Kee Group Limited (the “Company”) was incorporated in the Cayman Islands on 30 May 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business is 21/F, The Bedford, 91-93 Bedford Road, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the provision of engineering services in flooring, screeding, anti-skid surfacing, specialised texture painting and waterproofing works. The controlling shareholder of the Company is Mr. Kwong Chi Man (“Mr. Kwong”) and the parent company of the Company is Sage City Investments Limited (“Sage City”).

The consolidated financial information is presented in Hong Kong dollars (“HK\$”), unless otherwise stated.

The Company listed its shares on GEM of The Stock Exchange of Hong Kong Limited on 13 October 2016 (the “Listing”).

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the consolidated financial information is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of preparation**

The consolidated financial information of the Company has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial information has been prepared under the historical cost convention.

The preparation of consolidated financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) *New standards and amendments to standards and interpretation adopted by the Group*

The following new standards and amendments to standards and interpretation are mandatory for the financial year beginning on 1 April 2019.

<b>Standards</b>	<b>Subject of amendments</b>
HKFRS 16	Leases
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
Annual Improvements Project (Amendment)	Annual Improvements 2015 – 2017 Cycle
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

Except as disclosed in Note 2.2 for the adoption of HKFRS 16, the adoption of other new and amended standards and interpretation did not have any material impact on the current year or any prior years.

(b) *New standards and amendments to standards that are not yet effective and have not been early adopted by the Group*

The following new standards and amendments to standards have been published but are not effective for accounting period beginning on 1 April 2019 and have not been early adopted by the Group:

<b>Standards</b>	<b>Subject of amendments</b>	<b>Effective for accounting year beginning on or after</b>
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 April 2020
HKFRS 3 (Amendment)	Definition of a Business	1 April 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 April 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting	1 April 2020
HKFRS 17	Insurance Contracts	1 April 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will adopt the new and revised standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new and amended standards, none of which is expected to have a significant effect on the consolidated financial information of the Group.

## 2.2 Changes in accounting policies and disclosures

This note explains the impact of the adoption of HKFRS 16 “Leases” on the Group’s consolidated financial information.

As indicated in Note 2.1(a) above, the Group has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the year ended 31 March 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 April 2019. The new accounting policies are disclosed in Note 2.3.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 April 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.5%.

### (a) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 “Determining whether an Arrangement contains a Lease”.



(b) *Measurement of lease liabilities*

HK\$

Operating lease commitments disclosed as at 31 March 2019	531,320
Discounted using the lessee's incremental borrowing rate of 2.5% at the date of initial application	520,305
Add: finance lease payables recognised as at 31 March 2019	<u>808,387</u>
<b>Lease liabilities recognised as at 1 April 2019</b>	<b><u><u>1,328,692</u></u></b>

HK\$

**Representing:**

Current portion	735,596
Non-current portion	<u>593,096</u>
	<b><u><u>1,328,692</u></u></b>

(c) *Measurement of right-of-use assets*

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(d) *Adjustments recognised in the consolidated statement of financial position on 1 April 2019*

The following tables show the adjustments recognised in the consolidated statement of financial position on 1 April 2019:

<b>Consolidated statement of financial position (extract)</b>	<b>31 March 2019</b> <b>As originally presented</b> <i>HK\$</i>	<b>Effect of adoption of HKFRS 16</b> <i>HK\$</i>	<b>1 April 2019</b> <b>Restated</b> <i>HK\$</i>
<b>Non-current assets</b>			
Property, plant and equipment	40,845,046	(28,966,748)	11,878,298
Right-of-use assets	–	29,484,130	29,484,130
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Non-current liabilities</b>			
Finance lease payables	(414,976)	414,976	–
Lease liabilities	–	(593,096)	(593,096)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Current liabilities</b>			
Finance lease payables	(393,411)	393,411	–
Lease liabilities	–	(735,596)	(735,596)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Equity</b>			
Retained earnings	(15,793,515)	2,731	(15,790,784)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Non-controlling interests</b>			
	15,098	192	15,290
	<u>                    </u>	<u>                    </u>	<u>                    </u>

### 2.3 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

The Group enters into lease agreements as a lessee with respect to certain premises, motor vehicles and equipment.

Leases are initially recognised as right-of-use assets and corresponding liabilities at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option; and
- lease payments to be made under reasonably certain extension options are also included in the measurement of lease liabilities.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs, if any.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

### 3 REVENUE AND SEGMENT INFORMATION

	Year ended 31 March	
	2020	2019
	HK\$	HK\$
Flooring	89,926,643	114,500,267
Ancillary services	4,890,618	3,422,569
Sales of materials	207,160	—
	<u>95,024,421</u>	<u>117,922,836</u>
Timing of revenue recognition:		
At a point in time	207,160	—
Over time	94,817,261	117,922,836
	<u>95,024,421</u>	<u>117,922,836</u>

The Executive Directors have been identified as the chief operating decision-maker of the Group who review the Group's internal reporting in order to assess performance and allocate resources. The directors regard the Group's business as a single operating segment and review consolidated financial information accordingly.

The Group operates primarily in Hong Kong with substantially all its non-current assets located and capital expenditure incurred in Hong Kong.

During the year ended 31 March 2020, revenue was earned from customers located in Hong Kong and Macau of HK\$85,004,264 (2019: HK\$100,739,615) and HK\$10,020,157 (2019: HK\$17,183,221), respectively.

#### 4 EXPENSES BY NATURE

Expenses included in cost of sales and general and administrative expenses are analysed as follows:

	Year ended 31 March	
	2020	2019
	HK\$	HK\$
Cost of materials used	35,262,313	48,100,496
Subcontractor costs	25,448,844	33,025,969
Employee benefit expenses		
– direct labour	2,943,245	3,056,147
– administrative staff	10,806,347	10,451,020
Depreciation of property, plant and equipment	1,779,826	2,986,903
Depreciation of right-of-use assets	1,806,832	–
Operating lease rentals in respect of rented premises	–	373,145
Expenses related to short-term lease payments	165,615	–
Repair and maintenance expenses	85,167	38,249
Motor vehicle expenses	1,168,862	983,622
Auditor's remuneration		
– audit services	920,000	900,000
– non-audit services	35,000	30,000
Write-off of inventories	480,459	–
Provision for inventory obsolescence	47,133	307,281
Other expenses	5,101,300	5,693,079
	<u>86,050,943</u>	<u>105,945,911</u>

#### 5 FINANCE COSTS, NET

	Year ended 31 March	
	2020	2019
	HK\$	HK\$
Finance income		
– Bank interest income	57,048	19,624
Finance costs		
– Interest on bank borrowings	(335,263)	(273,722)
– Finance charges on finance leases	–	(49,463)
– Finance charges on leases liabilities	(38,632)	–
	<u>(373,895)</u>	<u>(323,185)</u>
Finance costs, net	<u>(316,847)</u>	<u>(303,561)</u>

## 6 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statement of comprehensive income represents:

	Year ended 31 March	
	2020	2019
	HK\$	HK\$
Current income tax:		
– Hong Kong profits tax	1,444,707	1,170,199
– Macau corporate income tax	38,736	392,019
– (Over)/under-provision in prior years	(78,778)	144,951
	<u>1,404,665</u>	<u>1,707,169</u>
Deferred income tax	77,899	(156,440)
	<u>1,482,564</u>	<u>1,550,729</u>

### (i) Hong Kong profits tax

In accordance with the two-tiered profits tax regime, Hong Kong profits tax was calculated at 8.25% on the first HK\$2 million and 16.5% on the remaining balance of the estimated assessable profits for the years ended 31 March 2020 and 2019.

### (ii) Macau corporate income tax

Macau corporate income tax has been provided at the applicable rate of 12% on the estimated assessable profit in excess of MOP600,000 (approximately HK\$583,000) of the Group's operations in Macau.

## 7 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years.

	Year ended 31 March	
	2020	2019
	HK\$	HK\$
Profit attributable to owners of the Company	<u>6,212,831</u>	<u>9,979,511</u>
Weighted average number of ordinary shares in issue	<u>600,000,000</u>	<u>600,000,000</u>
Basic earnings per share (HK cents)	<u>1.04</u>	<u>1.66</u>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share. As at 31 March 2020 and 2019, diluted earnings per share is equal to basic earnings per share as there were no dilutive potential shares.

## 8 TRADE AND RETENTION RECEIVABLES

	As at 31 March	
	2020	2019
	HK\$	HK\$
Trade and retention receivables	38,451,680	36,312,193
Less: provision for impairment	<u>(2,360,890)</u>	<u>(1,495,173)</u>
Trade and retention receivables, net	<u>36,090,790</u>	<u>34,817,020</u>

The credit period granted to trade customers other than for retention receivables is within 30 days. The terms and conditions in relation to the release of retentions varies from contract to contract, which may be subject to practical completion, the expiry of the defect liability period or a pre-agreed time period. The Group does not hold any collateral as security.

The ageing analysis of trade receivables based on invoice date is as follows:

	<b>As at 31 March</b>	
	<b>2020</b>	2019
	<b><i>HK\$</i></b>	<b><i>HK\$</i></b>
1 - 30 days	<b>5,152,538</b>	3,872,957
31 - 60 days	<b>1,810,711</b>	5,508,859
61 - 90 days	<b>4,045,441</b>	4,130,078
Over 90 days	<b>15,978,002</b>	13,287,766
	<b><u>26,986,692</u></b>	<b><u>26,799,660</u></b>

In the consolidated statement of financial position, retention receivables were classified as current assets based on operating cycle. The ageing of retention receivables based on invoice date is as follows:

	<b>As at 31 March</b>	
	<b>2020</b>	2019
	<b><i>HK\$</i></b>	<b><i>HK\$</i></b>
Within 1 year	<b>2,985,362</b>	4,800,945
Between 1 to 5 years	<b>8,479,626</b>	4,711,588
	<b><u>11,464,988</u></b>	<b><u>9,512,533</u></b>

The Group followed the guidance of HKFRS 9 and applied the simplified approach to measuring expected credit losses of trade and retention receivables which uses a lifetime expected credit loss allowance for all amounts without financing components. To measure the expected credit losses, trade and retention receivables have been grouped based on the settlement profiles of customers, shared credit risk characteristics and the days past due. The Group has also considered other factors such as general economy measures, changes in macro-economic indicators, etc and taking into account the uncertainty arising from the outbreak of Coronavirus Disease 2019 (“COVID-19”) in January 2020 and its continued impact to the Group as forward-looking information for the calculation of the expected credit losses. Based on the results, trade and retention receivables of HK\$2,360,890 (2019: HK\$1,495,173) were impaired.



During the year ended 31 March 2020, none of the trade and retention receivables were written off as uncollectible (2019: HK\$2,227,168). Movements on the provision for impairment of trade and retention receivables are as follows:

	<b>2020</b>	2019
	<b>HK\$</b>	<b>HK\$</b>
As at 1 April	<b>1,495,173</b>	3,480,101
Impairment loss on trade and retention receivables	<b>865,717</b>	242,240
Write-off of prior provision for impairment	–	(2,227,168)
	<u>          </u>	<u>          </u>
As at 31 March	<b><u>2,360,890</u></b>	<b><u>1,495,173</u></b>

## 9 CONTRACT ASSETS/(LIABILITIES)

	<b>As at 31 March</b>	
	<b>2020</b>	2019
	<b>HK\$</b>	<b>HK\$</b>
Contract assets	<b>10,084,028</b>	5,394,559
Less: provision for impairment	<b>(162,923)</b>	–
	<u>          </u>	<u>          </u>
	<b><u>9,921,105</u></b>	<b><u>5,394,559</u></b>
	<b>As at 31 March</b>	
	<b>2020</b>	2019
	<b>HK\$</b>	<b>HK\$</b>
Contract liabilities	<b>(4,457,487)</b>	(3,702,276)
	<u>          </u>	<u>          </u>

The contract assets are primarily related to the Group's rights to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date. The contract assets are transferred to trade receivables when the rights for consideration become unconditional. The Group typically reclassifies contract assets to trade receivables on the date of acceptance reports issued by the customers and invoices issued to them when such right of collection becomes unconditional other than the passage of time.

The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade and retention receivables. The contract assets are related to contracts which are still in progress and the payment is not due.

As at 31 March 2020, the loss allowance on contract assets is HK\$162,923. As at 31 March 2019, the loss allowance on contract assets was assessed to be minimal.

## 10 TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

	As at 31 March	
	2020	2019
	HK\$	HK\$
1 - 30 days	6,244,261	6,048,613
31 - 60 days	1,908,928	3,197,187
61 - 90 days	5,392,434	6,349,861
Over 90 days	2,459,581	1,128,719
	<u>16,005,204</u>	<u>16,724,380</u>

## 11 BANK BORROWINGS

	As at 31 March	
	2020	2019
	HK\$	HK\$
Secured		
– Bank borrowings which contain a repayable on demand clause	<u>10,130,503</u>	<u>10,748,991</u>

The fair values of bank borrowings approximate their carrying amounts as the impact of discounting is not significant. As at 31 March 2020, the Group's effective interest rate for bank borrowings was 2.4% per annum (2019: 2.5% per annum).

The bank borrowings due for repayment, based on the scheduled repayment dates set out in the loan agreements, are as follows:

	As at 31 March	
	2020	2019
	HK\$	HK\$
Within 1 year	720,021	696,357
Between 1 to 2 years	737,493	714,850
Between 2 to 5 years	2,321,115	2,255,490
Over 5 years	6,351,874	7,082,294
	<u>10,130,503</u>	<u>10,748,991</u>

As at 31 March 2020, total term and revolving banking facilities of HK\$24,130,503 (2019: HK\$16,748,991) over which approximately HK\$14,000,000 were unutilised (2019: HK\$6,000,000). These facilities were secured by:

- (i) certain assets included in property, plant and equipment and right-of-use assets with carrying amounts of HK\$7,063,042 and HK\$27,102,506 (2019: HK\$35,417,218 and Nil), respectively; and
- (ii) corporate guarantee provided by the Company.

As at 31 March 2020, the Group has not breached any of the covenants of the banking facilities. The bank borrowings are denominated in HK\$.

## 12 DIVIDENDS

	<b>2020</b>	2019
	<b>HK\$</b>	<b>HK\$</b>
Final dividend paid – Nil (2019: HK0.7 cents per share)	–	4,200,000
	<u>                    </u>	<u>                    </u>

Dividend paid during the year ended 31 March 2020 was HK\$4,200,000 (HK0.7 cents per share) (2019: HK\$8,400,000 (HK1.4 cents per share))

## 13 COMMITMENTS

### Operating lease commitments – Group as lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>As at</b>
	<b>31 March</b>
	<b>2019</b>
	<b>HK\$</b>
Within 1 year	348,016
Later than 1 year and no later than 5 years	<u>183,304</u>
	<u>                    </u>
	<u>531,320</u>

From 1 April 2019, the Group recognised right-of-use assets for their leases, except for short-term or low value leases.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS AND FINANCIAL REVIEW**

The Group is principally engaged in car park flooring industry in Hong Kong and Macau. We provide (i) flooring services, which involve the application of proprietary floor coating products for the purpose of providing a colorful, slip-resistance, hard wearing surface that is resistant against water and petrochemicals; (ii) ancillary services, which include specialised texture painting and waterproofing works; and (iii) others - sales of car park flooring materials. Our target segment range from mid to high end projects in the car park flooring market.

During the year ended 31 March 2020, the revenues from Hong Kong and Macau markets were approximately HK\$85.0 million (2019: approximately HK\$100.7 million) and approximately HK\$10.0 million (2019: approximately HK\$17.2 million), respectively. The significant drop of revenue from Macau market was mainly caused by the outbreak of Coronavirus Disease 2019 (“COVID-19”) in early 2020. The Macau government has introduced and implemented a series of precautionary and control measures which caused certain projects in Macau temporarily suspended or delayed.

For the year ended 31 March 2020, the Group recorded total revenue of approximately HK\$95.0 million, or the decrease of 19.4% as compared with approximately HK\$117.9 million for the year ended 31 March 2019. As a result of the decrease of revenue, the Group’s net profit substantially decreased from approximately HK\$9.9 million for the year ended 31 March 2019 to approximately HK\$6.1 million for the year ended 31 March 2020.

#### **Revenue**

The revenue, which is principally generated from the provision of car park flooring services projects, decreased to approximately HK\$95.0 million or 19.4%, for year ended 31 March 2020 from approximately HK\$117.9 million for year ended 31 March 2019. The decrease of revenue was mainly driven by the delay in commencement and work progress of some projects caused by the social unrest in Hong Kong since June 2019 and the ongoing COVID-19 outbreak in 2020.

#### **Gross profit and gross profit margin**

The Group’s gross profit dropped by approximately HK\$3.3 million, or 10.2% from approximately HK\$32.7 million for the year ended 31 March 2019 to approximately HK\$29.4 million for the year ended 31 March 2020.

The gross profit margin of the Group increased from 27.8% for the year ended 31 March 2019 to 30.9% for the year ended 31 March 2020. The increase of project cost for variation orders for the year ended 31 March 2020 was fewer than expected, as compared with the year ended 31 March 2019.

### **Impairment loss on trade and retention receivables and contract assets**

The Group recorded impairment loss on trade and retention receivables and contract assets of approximately HK\$1.0 million for the year ended 31 March 2020 as compared with approximately HK\$242,000 for the year ended 31 March 2019. Impairment loss is calculated under expected credit loss model with reference to the expected credit loss rates, which were determined based on the cash collection performance for customers with respect to the credit terms granted to each customer and also taking into account the forward-looking information. The increase in the impairment was mainly due to the increase in the trade receivables caused by the slowdown in settlement from customers as a result of the outbreak of COVID-19 in early 2020, even though the Group has implemented stringent credit control policies and enhanced their collection efforts during the year.

### **General and administrative expenses**

General and administrative expenses of the Group slightly decreased from approximately HK\$20.8 million for the year ended 31 March 2019 to approximately HK\$20.4 million for the year ended 31 March 2020. General and administrative expenses consist primarily of staff cost, depreciation, professional fee and other general administrative expenses.

### **Income tax expense**

Income tax expense for the Group decreased slightly from approximately HK\$1.6 million for the year ended 31 March 2019 to approximately HK\$1.5 million for the year ended 31 March 2020. The decrease of income tax expense was primarily due to the decrease in profit before income tax, which the decrease was mostly offset by (i) the increase of impairment loss on trade and retention receivables and contract assets which was non-deductible expense in taxation purpose; and (ii) the timing difference effect on the depreciation allowance for the year ended 31 March 2020.

### **Profit for the year**

The net profit of the Group decreased from approximately HK\$9.9 million for the year ended 31 March 2019 to approximately HK\$6.1 million for the year ended 31 March 2020. The decrease in profit was mainly due to the decrease in revenue.

## **OUTLOOK**

Looking forward, the Directors still consider that the future opportunities and challenges facing the Group will continue to be affected by (i) the market and economic environment which will affect the development of the property market and the construction schedule of our main contractors who are mainly property developers; and (ii) the factors affecting the labour and material costs as well as our contract price.

In light of the prevailing market and economic uncertainty (in particular, the impact of social unrest and recent COVID-19 outbreak) and the keen competition in the car park flooring market, the Group will focus on the following business strategies in order to strengthen its market position and income stream: (i) explore any new opportunities to diversify its business; (ii) keep track of any new construction projects and refurbishment projects in car park flooring markets in Hong Kong and Macau; (iii) expand the business in our ancillary services, i.e. specialized texture painting and waterproofing works; and (iv) take measures to control the operating cost, such as the labour and material costs, as well as general administrative expenses. The Group will adhere to these strategies and cope with future challenges in order to achieve continuous growth for the Group and the shareholders' value as a whole.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's current ratio was approximately 2.4 times as at 31 March 2020 compared to approximately 2.2 times at 31 March 2019. As at 31 March 2020, the Group had cash and cash equivalents of approximately HK\$19.6 million (2019: approximately HK\$23.6 million).

The total interest-bearing borrowings (including bank borrowings and finance lease payables/lease liabilities) of the Group as at 31 March 2020 were approximately HK\$10.8 million (2019: approximately HK\$11.6 million). The borrowings were secured by the Group's certain assets with carrying amount of approximately HK\$34.6 million as at 31 March 2020 (2019: approximately HK\$36.3 million).

As at 31 March 2020, the Group had total assets of approximately HK\$119.2 million (2019: approximately HK\$117.8 million) which were financed by total liabilities and total equity of approximately HK\$34.2 million (2019: approximately HK\$34.8 million) and approximately HK\$85.0 million (2019: approximately HK\$83.1 million).

## **GEARING RATIO**

The gearing ratio of the Group as at 31 March 2020 was approximately 11.3% (2019: approximately 12.2%).

The gearing ratio is calculated based on the total interest-bearing borrowings divided by the total capital of approximately HK\$95.8 million as at 31 March 2020 (2019: approximately HK\$94.6 million). The total capital of the Group is calculated as total equity plus total borrowings.

## **CAPITAL STRUCTURE**

There has been no change in the capital structure of the Group since its shares listed on GEM on 13 October 2016. The share capital of the Company only comprises of ordinary shares.

As at 31 March 2020, the Company's issued share capital was HK\$6,000,000 and the number of its issued ordinary shares was 600,000,000 of HK\$0.01 each.

## **SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

There was no significant investment held by the Group nor any material acquisition or disposal of subsidiary, associate and joint venture for the year ended 31 March 2020.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

As at the date of this announcement, the Board does not have any plan for material investments or additions of capital assets.

## **RISK OF FOREIGN EXCHANGE FLUCTUATIONS**

The Group operates in Hong Kong and Macau and majority of its business transactions are denominated in Hong Kong dollars and Macau Pataca, and hence, the Group does not have any material exposure to foreign exchange rate fluctuations for the year ended 31 March 2020. The Group has not entered any financial instrument for hedging purpose.

## **TREASURY POLICY**

The Group adopted a prudent financial management approach towards its treasury policies and maintained a healthy liquidity position throughout the reporting year. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements from time to time.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 March 2020, the Group had 31 employees in total (2019: 32 employees). The staff costs of the Group (including directors' emoluments and management, administrative and operational staff costs) for the year ended 31 March 2020 were approximately HK\$13.7 million (2019: approximately HK\$13.5 million).

The Group remunerates its employees based on their performance, working experience and with reference to the prevailing market conditions. On top of basic remuneration, discretionary bonus may be granted to senior management and staff members by reference to the Group's performance as well as individual's performance. Other staff benefits include medical benefits, mandatory provident fund and sponsorship of training courses.

## **COMMITMENTS AND CONTINGENT LIABILITY**

As at 31 March 2020 and 2019, the Group did not have any significant contingent liabilities. As at 31 March 2020, the Group's committed lease payments were recognised as lease liabilities of approximately HK\$673,000 after the adoption of HKFRS 16. For details regarding the operating lease commitments as at 31 March 2019, please refer to Note 13 to the consolidated financial information.

## **IMPACT OF CORONAVIRUS DISEASE 2019**

After the outbreak of COVID-19 in early 2020, Hong Kong and Macau governments have imposed a series of precautionary and control measures, including inbound and outbound travel restrictions and public health measures, in relation to the spread of COVID-19. It caused our contractors, subcontractors and suppliers to temporarily suspend or slow down their operations which in turn delaying the work progress of the Group's certain projects. The temporary slowdown of business activities due to COVID-19 also caused delay in settlement of account receivables from the Group's certain customers since February 2020.

As at the date of this announcement, most of the delayed or suspended projects were resumed. The Group is still in the process of assessing the impacts of the COVID-19 to the Group's performance in the next year and will continue to closely monitor the situation and development of COVID-19 and take appropriate measures when necessary.

## **EVENTS AFTER THE DATE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

The Board is not aware of any events after the date of consolidated statement of financial position that requires disclosure.

## **OFF BALANCE SHEET TRANSACTIONS**

As at 31 March 2020, the Group had not entered into any off balance sheet transactions.

## **DIVIDENDS**

The Board does not recommend the payment of a final dividend for the year ended 31 March 2020 (2019: HK\$0.7 cents per share).

## **CORPORATE GOVERNANCE PRACTICE AND COMPLIANCE**

The Company has complied with the principles and applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules for the year ended 31 March 2020, except the deviation from CG Code provision A.2.1 up to 1 September 2019.

Mr. Kwong Chi Man used to be the chairman and the chief executive officer of the Company. Mr. Kwong has been the key leadership figure of the Group for over 16 years and is well recognised in the car park flooring industry in Hong Kong. Mr. Kwong was once primarily involved in the overall business development, technical operations and strategic planning of the Group. The Directors were of the view that it would be in the Group's best interest for Mr. Kwong to continue performing the two roles in terms of effective management and business development, and considered that the deviation from the code provision A.2.1 of the CG Code was appropriate.



Mr. Yip was appointed as chief executive officer of the Company in place of Mr. Kwong with effect from 1 September 2019, and thereafter the Group has complied with the CG Code in all aspects.

#### **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY THE DIRECTORS**

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the Shares (the “**Code of Conduct**”). Having made specific enquiries to all Directors, each of them has confirmed that he/she has fully complied with the required standard of dealings set out in the Code of Conduct during the year ended 31 March 2020.

#### **PURCHASE, SALE OR REDEMPTION OF THE SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the year ended 31 March 2020.

#### **AUDIT COMMITTEE**

The Company established an audit committee (the “**Audit Committee**”) on 24 September 2016 with its written terms of reference in compliance with the GEM Listing Rules. The Audit Committee has reviewed the Group’s consolidated financial statements for the year ended 31 March 2020.

## REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's consolidated financial results for the year ended 31 March 2020 have been agreed by the Group's auditor, PricewaterhouseCooper ("PwC"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standard on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on the preliminary announcement.

By order of the Board  
**Kwong Man Kee Group Limited**  
**Mr. Kwong Chi Man**  
*Chairman and Executive Director*

Hong Kong, 19 June 2020

*As at the date of this announcement, the executive Directors are Mr. Kwong Chi Man, Mr. Yip Kong Lok and Mr. Yip Wai Man and the independent non-executive Directors are Ms. Yu Wan Wah Amparo, Mr. Law Pui Cheung and Mr. Wat Danny Hiu Yan.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and the Company's website at [www.kmk.com.hk](http://www.kmk.com.hk).*