

鄺文記集團有限公司

KWONG MAN KEE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8023



THIRD QUARTERLY REPORT

2017/18

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, 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 report, 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 the Growth Enterprise Market 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 enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- The revenue of the Group was approximately HK\$53.1 million for the nine months ended 31 December 2017 (for the same period ended 31 December 2016: approximately HK\$53.0 million). The gross profit margin of the Group decreased from 45% for the nine months ended 31 December 2016 to 37% for the same period ended 31 December 2017. Such decline was primarily caused by intensified competition in the car parking flooring industry and the competitive labour market, which resulted in decrease of our contract sum and increase of our subcontractor costs respectively.
- The net profit attributable to owners of the Company was approximately HK\$5.6 million for the nine months ended 31 December 2017, as compared to net profit of approximately HK\$0.6 million recorded for the same period ended 31 December 2016.
- The Board does not recommend payment of an interim dividend for the nine months ended 31 December 2017 (for the same period ended 31 December 2016: Nil).

FINANCIAL RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated financial results of the Group for the nine months ended 31 December 2017, together with the comparative unaudited figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 31 DECEMBER 2017

	Note	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
		2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Revenue	4	27,830,315	15,414,066	53,066,160	53,022,432
Cost of sales	8	(16,386,893)	(8,428,198)	(33,431,156)	(29,016,778)
Gross profit		11,443,422	6,985,868	19,635,004	24,005,654
Other income		8,564	485,570	99,403	485,570
General and administrative expenses	8	(4,566,037)	(8,212,643)	(13,000,378)	(23,591,093)
Operating profit/(loss)		6,885,949	(741,205)	6,734,029	900,131
Finance cost, net		(70,272)	(6,271)	(165,534)	(7,605)
Profit/(loss) before income tax		6,815,677	(747,476)	6,568,495	892,526
Income tax (expense)/credit	5	(1,015,209)	207,852	(1,015,209)	(248,122)
Profit/(loss) and total comprehensive income/(loss) for the period attributable to owners of the Company		5,800,468	(539,624)	5,553,286	644,404
Dividend	6	-	-	-	-
Earnings/(loss) per share, basic and diluted, attributable to owners of the Company (HK cents per share)	7	0.97	(0.09)	0.93	0.11

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 31 DECEMBER 2017

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK\$	Share premium HK\$	Capital reserves HK\$	Shareholders contribution HK\$	Retained earnings HK\$	Total equity HK\$
Balance at 1 April 2017	6,000,000	52,482,955	108	8,800,000	8,820,284	76,103,347
Profit and total comprehensive income for the period	-	-	-	-	<u>5,553,286</u>	<u>5,553,286</u>
Balance at 31 December 2017	<u>6,000,000</u>	<u>52,482,955</u>	<u>108</u>	<u>8,800,000</u>	<u>14,373,570</u>	<u>81,656,633</u>
Balance at 1 April 2016	77,500	-	(77,392)	8,800,000	15,158,377	23,958,485
Profit and total comprehensive income for the period	-	-	-	-	644,404	644,404
Capital reserve arising on Reorganisation	(77,500)	-	77,400	-	-	(100)
Additional paid in Capital	100	-	-	-	-	100
Share issued pursuant to Initial Public Offering	5,999,900	52,657,955	-	-	-	58,657,855
Dividend	-	-	-	-	<u>(3,500,000)</u>	<u>(3,500,000)</u>
Balance at 31 December 2016	<u>6,000,000</u>	<u>52,657,955</u>	<u>8</u>	<u>8,800,000</u>	<u>12,302,781</u>	<u>79,760,744</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 21st Floor, The Bedford, Nos 91-93 Bedford Road, Kowloon, Hong Kong.

The Company and its subsidiaries (together, the “Group”) are principally engaged in the provision of engineering services in flooring, screeding, anti-skid surfacing and concrete repairing. The controlling shareholder of the Company is Mr. Kwong Chi Man and the immediate and ultimate holding company of the Company is Sage City Investments Limited.

The Company has its primary listing (“Initial Public Offering”) on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on (the “Stock Exchange”) 13 October 2016.

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

2 BASIS OF PREPARATION

This condensed consolidated financial information for the nine months ended 31 December 2017 has been prepared in accordance with Hong Kong Financial Reporting Standard (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the GEM Listing Rules. The condensed consolidated financial information should be read in conjunction with the Company’s consolidated financial statements for the year ended 31 March 2017, which have been prepared in accordance with HKFRSs issued by the HKICPA.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated financial information are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 March 2017.

The Group has adopted and applied the following new standards and amendments to standards that have been effective for the accounting periods beginning on 1 April 2017. The adoption of these new standards and amendments to standards has no material impact on the Group's results and financial position.

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses

For those new standards and amendments to standards which have been issued but are not yet effective and have not been early adopted in prior accounting periods, the Group is in the process of assessing their impact on the Group's results and financial position.

Taxes on income for the nine-month periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

The preparation of the condensed consolidated financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. 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 consolidated financial statements for the year ended 31 March 2017.

4 REVENUE AND SEGMENT INFORMATION

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Flooring	27,637,422	15,133,816	51,732,084	52,044,061
Ancillary services	192,893	280,250	1,334,076	978,371
	27,830,315	15,414,066	53,066,160	53,022,432

The Executive Directors have been identified as the chief operating decision-makers 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 financial information accordingly.

The Group is principally engaged in the provision of engineering services in flooring, screeding, anti-skid surfacing and concrete repairing.

The Group operates in Hong Kong and started its business in Macau in August 2017. Revenue was earned from customers located in both Hong Kong and Macau of approximately HK\$44.5 million and approximately HK\$8.6 million, respectively, for the nine months ended 31 December 2017 (for the same period ended 31 December 2016: approximately HK\$53.0 million and Nil, respectively).

5 INCOME TAX (EXPENSE)/CREDIT

Income tax (expense)/credit is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is approximately 15.5% (2016: approximately 27.8%).

6 DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2017 (for the same period ended 31 December 2016: Nil).

7 EARNINGS/(LOSS) PER SHARE

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

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Earnings/(loss) attributable to owners of the Company	5,800,468	(539,624)	5,553,286	644,404
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	600,000,000	600,000,000	600,000,000	600,000,000
Earnings/(loss) per share (HK cents per share)	0.97	(0.09)	0.93	0.11

No adjustment has been made to the basic earnings/(loss) per share presented for the nine months ended 31 December 2017 and 2016 as the Group had no potentially diluted ordinary shares in issue during those periods.

8 EXPENSES BY NATURE

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

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Cost of flooring materials used	10,601,239	4,727,680	17,869,037	18,610,771
Subcontractor cost	4,997,782	3,230,915	13,442,286	9,091,061
Employee benefit expenses	3,170,789	1,838,479	8,423,039	6,255,759
Auditor's remuneration	275,000	175,000	725,000	525,000
Provision for inventory obsolescence	-	-	-	40,262
Listing expenses	-	4,085,986	-	13,337,032

9 RELATED PARTY TRANSACTIONS

The directors of the Company are of the view that the following individuals were related parties that had transactions or balances with the Group.

Related parties	Relationship with the Group
Mr. Kwong Chi Man ("Mr. Kwong")	Controlling shareholder and director of the Group
Ms. Li Chuen Chun ("Mrs. Kwong")	Spouse of Mr. Kwong
Ms. Kwong Wing Yan ("Ms. Kwong")	Daughter of Mr. Kwong
Ms. Kwong Wing Yee ("Ms. Kwong W.Y.")	Daughter of Mr. Kwong
Ms. Li Mei Ying ("Ms. Li")	Sister-in-law of Mr. Kwong
Mr. Yip Kong Lok ("Mr. Yip")	Senior management

During the nine months ended 31 December 2017 and 2016, the Group had the following significant transactions with its related parties:

	Unaudited Nine months ended 31 December	
	2017 HK\$	2016 HK\$
Rental expenses paid in relation to rental contract entered into with:		
Mr. Kwong	–	40,000
Mrs. Kwong and Ms. Kwong W.Y.	60,000	160,000
Mrs. Kwong and Ms. Kwong	–	5,600
Ms. Li	–	6,200
Mr. Kwong and Mr. Yip	60,000	–

These transactions were entered into at terms agreed with the director or the related party in the ordinary course of the Group's business.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the Hong Kong car park flooring industry. 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; and (ii) ancillary services, which include concrete repairing and wall painting work in Hong Kong. Our target segment range from mid to high end projects in the car park flooring market.

The Board and our management are actively developing the car park flooring renovation market by recruiting respective experts who are well-known in that market and have access to a network of property developers and owners' corporations. The Board believes that the listing status of the Group would increase the confidence of our potential customers.

The Group has started to expand business to Macau since August 2017 and the first project in Macau was completed in December 2017. Several contracts in Macau were signed in January 2018 and these projects will commence in the coming quarters of 2018. During the nine months ended 31 December 2017, our revenue was earned from customers located in both Hong Kong and Macau.

Financial Review

Revenue and Gross Profit

Our revenue, which is principally generated from the provision of car park flooring services for construction projects, was approximately HK\$53.1 million for the nine months ended 31 December 2017 (for the same period ended 31 December 2016: approximately HK\$53.0 million). The gross profit margin of the Group decreased from 45% for the nine months ended 31 December 2016 to 37% for the same period ended 31 December 2017. Such decline was primarily caused by intensified competition in the car parking flooring industry and the competitive labour market, which resulted in decrease of our contract sum and increase of our subcontractor cost respectively.

General and administrative expenses

General and administrative expenses of the Group decreased by approximately HK\$10.6 million from approximately HK\$23.6 million for the nine months ended 31 December 2016 to approximately HK\$13.0 million for the nine months ended 31 December 2017. General and administrative expenses consist primarily of staff cost, professional fee depreciation, rental expenses and other general administrative expenses. The decrease was mainly due to non-recurring listing expenses which accounted for the same period ended 31 December 2016.

Profit attributable to owners of the Company

The net profit attributable to owners of the Company was approximately HK\$5.6 million for the nine months ended 31 December 2017, as compared to net profit of approximately HK\$0.6 million recorded for the same period ended 31 December 2016.

Bank borrowings

Bank borrowings of the Group as at 31 December 2017 was approximately HK\$11.6 million (as at 31 December 2016: Nil). The borrowings were secured by our property acquired on 31 May 2017 with carrying amount of approximately HK\$29.6 million as at 31 December 2017.

Treasury policy

The Group adopted a prudent financial management approach towards its treasury policies and maintained a healthy liquidity position throughout the reporting period. 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 will meet our funding requirements from time to time.

Commitments and Contingent Liability

The Group did not have significant lease commitments and contingent liabilities as at 31 December 2017.

Events after the reporting period

The Board is not aware of any events after the reporting period that requires disclosure.

DIVIDEND

The Board does not recommend payment of an interim dividend for the nine months ended 31 December 2017 (for the same period ended 31 December 2016: Nil).

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 nine months ended 31 December 2017, except the deviation from CG Code provision A.2.1.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Kwong Chi Man is the chairman and the chief executive officer of the Company. Mr. Kwong has been the key leadership figure of the Group for over 14 years and is well recognised in the car park flooring industry in Hong Kong. Mr. Kwong has been primarily involved in the overall business development, technical operations and strategic planning of the Group. The Directors are 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. The Directors further believe that the balance of power and authority is adequately ensured by the operations of the Board, which comprises experienced and high-caliber individuals, with three of them being independent non-executive Directors.

Based on the above factors, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY 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 nine months ended 31 December 2017.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “Scheme”) on 24 September 2016, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix IV to the prospectus of the Company dated 30 September 2016. The terms of the Scheme comply with the provisions of Chapter 23 of the GEM Listing Rules.

No share option has been granted or exercised under the Scheme during the nine months ended 31 December 2017. No share option was outstanding as at 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company (the “Shares”) for the nine months ended 31 December 2017.

DISCLOSURE OF INTERESTS**A. 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 December 2017, the interests or short positions of the Directors or chief executives officer of the Company in the Shares, underlying Shares and debentures of the Company or any of the associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any 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 relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares

Number of Director	Nature of Interest	Name of Shares held or interested	Percentage of shareholding
Mr. Kwong Chi Man ("Mr. Kwong")	Interest in controlled corporation (<i>note</i>)	375,750,000	62.63%

Note: Mr. Kwong beneficially owns 70% of the issued share capital of Sage City Investments Limited ("Sage City"), the beneficial owner holding 62.63% shareholding in the Company. Therefore, Mr. Kwong is deemed to be interested in all the Shares which are beneficially owned by Sage City for the purpose of the SFO. Mr. Kwong is the chairman, an executive Director of the Company and a director of Sage City.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive officer of the Company had any interests and short positions in the Shares, underlying Shares or debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any 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 the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

B. Substantial Shareholders' interest and other persons' interests and short positions in the Shares and, underlying Shares and debenture of the Company

So far as the Directors were aware, as at 31 December 2017, the following persons (other than the Directors or chief executive officer of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register of interests required to be kept under section 336 of the SFO:

Long Position in the Shares

Name	Nature of Interest	Number of Shares held or interested	Percentage of shareholding
Sage City	Beneficial interest (note 1)	375,750,000	62.63%
Ms. Li Chuen Chun	Interest of spouse (note 2)	375,750,000	62.63%

Notes:

1. Sage City is a company incorporated in the British Virgin Islands and is owned by Mr. Kwong and Mr. Yip Kong Lok ("Mr. Yip") as to 70% and 30%, respectively. Mr. Kwong is the chairman, an executive Director of the Company and a director of Sage City. Mr. Yip is a senior management of the Company.
2. Ms. Li Chuen Chun is the spouse of Mr. Kwong and is deemed to be interested in all the Shares in which Mr. Kwong is interested for the purposes of the SFO.

Save as disclosed above, as at 31 December 2017, the Directors were aware that any persons (other than the Directors or chief executive officer of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were required to be recorded in the register of interests required to be kept under section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Other than members of the Group, none of the Directors or their respective close associates (as defined in the GEM Listing Rules) has interests in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

INTERESTS OF COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Alliance Capital Partners Limited ("ACP"), as at 31 December 2017, save as the compliance adviser agreement entered into between the Company and ACP dated 17 June 2016, neither ACP nor its directors, employees or associates had any interest in relation to the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 24 September 2016 with its written terms of reference in accordance with the GEM Listing Rules and the CG Code. The Audit Committee has reviewed the unaudited consolidated financial results of the Group for the nine months ended 31 December 2017. The Audit Committee is of the opinion that such financial results comply with the applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

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

Hong Kong, 8 February 2018

As at the date of this report, the executive Directors are Mr. Kwong Chi Man (Chairman) 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 report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and the Company's website at www.kmk.com.hk.