K. H. GROUP HOLDINGS LIMITED
劍虹集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1557)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of K. H. Group Holdings Limited (the "**Company**") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 September 2018, together with the comparative figures for the corresponding six months ended 30 September 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Note	Six months ended 30 September 2018 (Unaudited) *HK$'000*	Six months ended 30 September 2017 (Unaudited) *HK$'000*
REVENUE	*5*	**93,559**	127,472
Cost of sales		**(91,724)**	(124,834)
GROSS PROFIT		**1,835**	2,638
Other income	*6*	**14,637**	235
Administrative expenses		**(14,496)**	(11,099)
PROFIT/(LOSS) FROM OPERATIONS		**1,976**	(8,226)
Finance costs	*7*	**(3,601)**	(632)
LOSS BEFORE TAX		**(1,625)**	(8,858)
Income tax expense	*8*	**–**	–
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	*9*	**(1,625)**	(8,858)
		HK$	*HK$*
LOSS PER SHARE			
– Basic	*11(a)*	**(0.4 cents)**	(2.2 cents)
– Diluted	*11(b)*	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Note	30 September 2018 (Unaudited) HK$'000	31 March 2018 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**62,068**	64,166
CURRENT ASSETS			
Inventories		**4,572**	4,212
Trade and retention receivables	*12*	**62,079**	52,000
Gross amounts due from customers for contract work		–	84,103
Contract assets		**99,969**	–
Prepayments, deposits and other receivables		**37,805**	10,320
Pledged bank deposits		**10,170**	10,138
Bank and cash balances		**33,813**	12,590
		248,408	173,363
CURRENT LIABILITIES			
Trade and retention payables	*13*	**50,565**	45,088
Gross amounts due to customers for contract work		–	2,225
Accruals and other payables		**7,345**	6,930
Finance lease payables		**20,505**	26,397
Bank borrowings, secured		**23,705**	30,007
		102,120	110,647
NET CURRENT ASSETS		**146,288**	62,716
TOTAL ASSETS LESS CURRENT LIABILITIES		**208,356**	126,882
NON-CURRENT LIABILITIES			
Finance lease payables		**1,337**	1,868
Other borrowing, unsecured	*14*	**88,130**	–
		89,467	1,868
NET ASSETS		**118,889**	125,014
CAPITAL AND RESERVES			
Share capital		**4,000**	4,000
Reserves		**114,889**	121,014
TOTAL EQUITY		**118,889**	125,014

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability on 23 July 2015 under the Companies Law of the Cayman Islands. The address of its registered office is at P. O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Unit 01, 82/F International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 March 2016.

The Company is an investment holding company. The Group is principally engaged in the provision of foundation services and leasing of machinery in Hong Kong.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The condensed consolidated interim financial statements are unaudited but have been reviewed by the audit committee (the "Audit Committee") of the Company.

The accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 September 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The condensed consolidated interim 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 Group's annual financial statements for the year ended 31 March 2018 which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

3. CHANGE IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*

The Group has not applied any new and revised standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to the presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 3(b) for HKFRS 9 and note 3(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity as at 1 April 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the condensed consolidated statement of financial position that has been impacted by HKFRS 9 and/or HKFRS 15:

	As at 31 March 2018	**Impact on initial application of HKFRS 9** *(Note 3(b))*	**Impact on initial application of HKFRS 15** *(Note 3(c))*	**As at 1 April 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Gross amounts due from customers for contract work	84,103	–	(84,103)	–
Contract assets	–	(4,346)	84,103	79,757
Trade and retention receivables	52,000	(154)	–	51,846
Total current assets	**173,363**	**(4,500)**	**–**	**168,863**
Gross amounts due to customers for contract work	2,225	–	(2,225)	–
Contract liabilities	–	–	2,225	2,225
Total current liabilities	**110,647**	**–**	**–**	**110,647**
Net current assets	**62,716**	**(4,500)**	**–**	**58,216**
Net assets	**125,014**	**(4,500)**	**–**	**120,514**
Reserves	121,014	(4,500)	–	116,514
Total equity	**125,014**	**(4,500)**	**–**	**120,514**

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed as at 1 April 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity as at 1 April 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits as at 1 April 2018.

	HK$'000
Retained profits	
Recognition of additional expected credit losses on:	
– financial assets measured at amortised cost	(154)
– contract assets	(4,346)
Decrease in retained profits as at 1 April 2018	(4,500)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Under HKFRS 9, the classification for all the Group's financial assets and financial liabilities measured at amortised cost remain the same. The carrying amounts for all financial liabilities as at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

– contract assets as defined in HKFRS 15 (see note 3(c)).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, retentions receivable and contract assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to HK$4,500,000, which decreased retained profits by HK$4,500,000 as at 1 April 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 March 2018 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 April 2018.

	HK$'000
Loss allowance as at 31 March 2018 under HKAS 39	–
Additional credit loss recognised as at 1 April 2018 on:	
– Trade and retention receivables	154
– Contract assets recognised on adoption of HKFRS 15	4,346
Loss allowance as at 1 April 2018 under HKFRS 9	4,500

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings as at 1 April 2018. Accordingly, the information presented for the corresponding period of 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18.

There is no impact of transition to HKFRS 15 on retained profits as at 1 April 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from construction contracts was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from construction contracts.

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to construction contracts in progress were presented in the statement of financial position under "gross amount due from customers for contract work" or "gross amount due to customers for contract work" respectively.

To reflect these changes in presentation, the Group has made the following adjustments as at 1 April 2018, as a result of the adoption of HKFRS 15:

a. "Gross amount due from customers for contract work" amounting to approximately HK$84,103,000 is now included under contract assets; and

b. "Gross amount due to customers for contract work" amounting to approximately HK$2,225,000 is now included under contract liabilities.

4. SEGMENT INFORMATION

Operating segment information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Board of the Company considers that the Group manages its businesses by divisions, which are organised into business units based on their services provided, and has the reportable operating segments as follows:

(i) Foundation – provision of foundation services

(ii) Leasing – leasing of machinery

The reportable segments are identified in a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment.

	Foundation Six months ended 30 September		**Leasing Six months ended 30 September**		**Total Six months ended 30 September**	
	2018 (Unaudited) *HK$'000*	2017 (Unaudited) *HK$'000*	**2018 (Unaudited) *HK$'000***	2017 (Unaudited) *HK$'000*	**2018 (Unaudited) *HK$'000***	2017 (Unaudited) *HK$'000*
Reportable segment revenue	**93,559**	127,472	**–**	–	**93,559**	127,472
Reportable segment results	**(2,204)**	1,993	**(1,123)**	(679)	**(3,327)**	1,314
Unallocated corporate income					**14,610**	–
Central administrative expenses and Directors' remuneration					**(12,908)**	(10,172)
Loss before tax					**(1,625)**	(8,858)

All of the segment revenue reported above is from external customers.

Segment results represent profit or loss attributable to the segment without allocation of corporate income, central administrative expenses and Directors' remuneration.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

	30 September 2018 (Unaudited)	31 March 2018 (Audited)
	HK$'000	*HK$'000*
SEGMENT ASSETS		
Foundation	**260,501**	226,841
Leasing	**10,007**	10,588
Total segment assets	**270,508**	237,429
Unallocated assets	**39,968**	100
Consolidated assets	**310,476**	237,529
SEGMENT LIABILITIES		
Foundation	**97,761**	106,386
Leasing	**4,949**	6,055
Total segment liabilities	**102,710**	112,441
Unallocated liabilities	**88,877**	74
Consolidated liabilities	**191,587**	112,515

For the purposes of monitoring segment performance and allocating resources to segment:

(i) All assets are allocated to reportable segments other than the unallocated assets; and

(ii) All liabilities are allocated to reportable segments other than those unallocated liabilities which are centrally managed by Group's management.

Seasonality of operations

The Group's operations are not subject to significant seasonal factors.

5. REVENUE

An analysis of the Group's revenue is as follows:

	Six months ended 30 September	
	2018 (Unaudited)	2017 (Unaudited)
	HK$'000	*HK$'000*
Foundation	**93,559**	127,472

6. OTHER INCOME

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**27**	32
Imputed interest income *(note 14)*	**14,610**	–
Others	**–**	203
	14,637	235

7. FINANCE COSTS

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Finance lease charges	**603**	437
Interest on bank borrowings	**472**	430
Imputed interest expenses on other borrowing *(note 14)*	**2,740**	–
	3,815	867
Less: Amount attributable to contract works	**(214)**	(235)
	3,601	632

8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits for the six months ended 30 September 2018 (six months ended 30 September 2017: Nil).

9. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging/(crediting) the following:

		Six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Costs of construction materials	*a*	**22,854**	53,355
Depreciation	*b*	**3,366**	3,703
Employee benefits expense (including Directors' remuneration):			
– Salaries, bonuses and allowances		**24,494**	25,006
– Retirement benefits scheme contributions		**802**	799
	c	**25,296**	25,805
Gain on disposals of property, plant and equipment		**–**	(15)
Operating lease charges:			
– Hire of plant and equipment		**2,546**	3,225
– Land and buildings		**2,272**	1,577
	d	**4,818**	4,802

Notes:

(a) The amounts were included in cost of sales.

(b) The amounts included in cost of sales for the six months ended 30 September 2018 and 2017 amounted to approximately HK$2,184,000 and approximately HK$1,441,000 respectively.

(c) The amounts included in cost of sales for the six months ended 30 September 2018 and 2017 amounted to approximately HK$19,148,000 and approximately HK$18,139,000 respectively.

(d) The amounts included in cost of sales for the six months ended 30 September 2018 and 2017 amounted to approximately HK$3,482,000 and approximately HK$3,969,000 respectively.

10. DIVIDENDS

The Board does not recommend the payment of an interim dividend to the shareholders for the six months ended 30 September 2018.

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share is based on the following:

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of calculating basic loss per share	**(1,625)**	(8,858)

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**400,000**	400,000

(b) Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the six months ended 30 September 2018 and 2017.

12. TRADE AND RETENTION RECEIVABLES

		30 September	31 March
		2018	2018
		(Unaudited)	(Audited)
	Note	***HK$'000***	*HK$'000*
Trade receivables	*(a)*	**25,674**	14,314
Retention receivables	*(b)*	**36,405**	37,686
		62,079	52,000

Note:

(a) The ageing analysis of trade receivables, based on the progress payment, is as follows:

	30 September 2018 (Unaudited) *HK$'000*	31 March 2018 (Audited) *HK$'000*
0 to 30 days	**22,397**	14,314
31 to 60 days	**3,277**	–
	25,674	14,314

(b) As at 30 September 2018, the Group's retention receivables expected to be recovered after more than twelve months was approximately HK$3,521,000 (31 March 2018: approximately HK$5,425,000).

13. TRADE AND RETENTION PAYABLES

	Note	**30 September 2018 (Unaudited) *HK$'000***	31 March 2018 (Audited) *HK$'000*
Trade payables	*(a)*	**39,192**	33,498
Retention payables	*(b)*	**11,373**	11,590
		50,565	45,088

Notes:

(a) The ageing analysis of trade payables, based on the date of receipt of goods/services, is as follows:

	30 September 2018 (Unaudited) *HK$'000*	31 March 2018 (Audited) *HK$'000*
0 to 30 days	**14,362**	16,602
31 to 60 days	**5,127**	9,469
61 to 90 days	**1,900**	538
Over 90 days	**17,803**	6,889
	39,192	33,498

(b) As at 30 September 2018, the Group's retention payables expected to be due after more than twelve months was approximately HK$1,168,000 (31 March 2018: approximately HK$2,073,000).

14. OTHER BORROWING, UNSECURED

Pursuant to the terms of the sales and purchase agreement entered between New Grace Gain Limited (the former controlling shareholder of the Company) (the "New Grace Gain") and Blessing Well Enterprise Limited (the existing controlling shareholder of the Company) (the "Blessing Well") on 27 April 2018, New Grace Gain provided an unsecured, interest-free loan of HK$100,000,000 to the Company on 25 May 2018 for a term of 30 months (the "Unsecured Loan"). New Grace Gain shall not be entitled to demand early repayment and the Company has no right to make early repayment of the Unsecured Loan.

At the inception date of 25 May 2018, the fair value of the Unsecured Loan was determined at approximately HK$85,390,000, which was valued by an independent professional valuer using discounted cash flow approach. In subsequent periods, the Unsecured Loan is carried at amortised cost using the effective interest method. The effective interest rate of the Unsecured Loan is 6.52%.

During the six months ended 30 September 2018, imputed interest income of approximately HK$14,610,000 (six months ended 30 September 2017: Nil) and imputed interest expense of approximately HK$2,740,000 (six months ended 30 September 2017: Nil) were recognised in the condensed consolidated statement of profit or loss respectively.

As at 30 September 2018, the carrying amount of the Unsecured Loan was approximately HK$88,130,000 (31 March 2018: Nil).

15. CONTINGENT LIABILITIES

(a) At the end of the reporting period, the Group has provided guarantees to an insurance company as follows:

	30 September 2018	31 March 2018
	HK$'000	*HK$'000*
Guarantees on performance bonds for construction contracts	**34,161**	33,388

(b) In May 2015, a subcontractor claimed against the Group for certain construction works (the "Dispute"). The total amount of claim by the subcontractor is approximately HK$20,329,000. The Group and the subcontractor agreed to resolve their Dispute by arbitration or by other means of dispute resolution.

Up to the date of these condensed consolidated interim financial statements, the arbitration is still in the process and there is no conclusive decision to resolve the Dispute. The management, after taking external legal advice, considers that it is pre-mature to assess the outcome for the said claim.

Pursuant to the deed of indemnity executed by the former controlling and substantial shareholder of the Company, New Grace Gain and its ultimate beneficial owners, Mr. Yeung Sau Ming Boris, Mr. Lau Tai Wah Gilbert and Mr. Yue Suen Leung, in favour of our Company, each of them has irrevocably and unconditionally, jointly and severally, agreed to indemnify the Group against, among others, all loss and damages arising from the Dispute.

Accordingly, no provision has been made for the claim.

16. CAPITAL COMMITMENTS

As at 30 September 2018, the Group did not have any significant capital commitments (31 March 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 September 2018, the Group were principally engaged in provision of foundation services and leasing of machinery in Hong Kong.

There were 7 active projects as at 30 September 2017. As at 30 September 2018, 5 of these projects remained in progress while the other 2 projects have practically been completed.

5 new projects were awarded to the Group during the twelve months ended 30 September 2018 and all of them remained in progress as at 30 September 2018. As such, there were a total of 10 active projects in progress as at 30 September 2018.

FINANCIAL REVIEW

Revenue

The Group's overall revenue decreased by 26.6% from approximately HK$127,472,000 during the six months ended 30 September 2017 to approximately HK$93,559,000 during the six months ended 30 September 2018.

The decrease in the Group's overall revenue was mainly due to the fact that one large foundation project has reached the finalisation stage, by which it contributed revenue of approximately HK$10,176,000 during the six months ended 30 September 2018 as compared to approximately HK$61,991,000 during the corresponding period of 2017.

Gross Profit/Gross Profit Margin

The overall gross profit decreased by 30.4% from approximately HK$2,638,000 during the six months ended 30 September 2017 to approximately HK$1,835,000 during the six months ended 30 September 2018. Such decrease was in line with the decrease in the Group's overall revenue as explained above.

The Group's overall gross profit margin was 2.0% during the six months ended 30 September 2018 which is comparable to the gross profit margin of 2.1% during the corresponding period of 2017.

Other Income

The Group's other income increased from approximately HK$235,000 during the six months ended 30 September 2017 to approximately HK$14,637,000 during the six months ended 30 September 2018. Such increase was mainly due to a non-recurring imputed interest income of approximately HK$14,610,000 arising from the unsecured, interest-free borrowing amounting to HK$100,000,000 obtained from New Grace in May 2018.

Administrative Expenses

The Group's administrative expenses increased by 30.6% from approximately HK$11,099,000 during the six months ended 30 September 2017 to approximately HK$14,496,000 during the six months ended 30 September 2018.

Increase in administrative expenses was mainly due to the payments of consulting and professional fees of approximately HK$4,306,000 during the six months ended 30 September 2018.

Finance Costs

The Group's finance costs increased from approximately HK$632,000 during the six months ended 30 September 2017 to approximately HK$3,601,000 during the six months ended 30 September 2018. Such increase was mainly due to the imputed interest expenses of approximately HK$2,740,000 arising from the unsecured, interest-free borrowing amounting to HK$100,000,000 obtained from New Grace Gain in May 2018.

Net Loss

As a result of the abovementioned, during the six months ended 30 September 2018, the Group reported a net loss of approximately HK$1,625,000 (during the six months ended 30 September 2017: approximately HK$8,858,000).

PROSPECTS

Due to the decrease in the number of foundation contracts available from both the public and private sectors, it is generally believed that the foundation industry remains tough with keen competition among the market players. During the difficult times, the Group tried to adjust its tendering strategies, widen its customer base and implement a tight cost control so as to maintain its competitiveness. In the short term, it is expected that the foundation industry would not regain momentum immediately.

As supported by the latest 2018 policy address of the Hong Kong Special Administrative Region (the "2018 Policy Address") by the Chief Executive of the Hong Kong Special Administrative Region, land and housing is still one of the most important agendas in the 2018 Policy Address. The Group believes that there will be more opportunities in the foundation industry in Hong Kong as a result of the boosting land supply for housing developments for both private and public sectors as well as fostering infrastructure development plans in the long term.

Other than the keen competition in the foundation market in Hong Kong, the uncertainties in the execution of foundation works, conservative approach to certification and approval for foundation works valuation by the customers; and the continuous increase in the direct labour and material costs undoubtedly have increased the overall operational risks of the market players.

Looking ahead, the Board remains prudently optimistic about the prospects of the foundation industry in Hong Kong. The Group will continue to exercise due care in pursuing its existing core business and promoting its development plans so as to balance the risks and opportunities in the foundation industry in Hong Kong. The Group will also closely and carefully monitor the latest development in the global economy and foundation industry in Hong Kong and adjust its business strategies from time to time if required.

The Group will also try to explore and identify any suitable investment opportunities in order to broaden its revenue base to maximise its return to the shareholders.

DEBTS AND CHARGE ON ASSETS

The total interest-bearing bank borrowings of the Group, including bank loans and finance lease payables, decreased from approximately HK$58,272,000 as at 31 March 2018 to approximately HK$45,547,000 as at 30 September 2018. As at 30 September 2018, these banking facilities were secured by (i) the Group's trade and retention receivables of approximately HK$23,412,000 (31 March 2018: approximately HK$16,992,000); (ii) the Group's pledged bank deposits of approximately HK$10,170,000 (31 March 2018: approximately HK$10,138,000); (iii) the Group's property, plant and equipment with total net carrying amounts of approximately HK$41,735,000 (31 March 2018: approximately HK$53,312,000); and (iv) corporate guarantee executed by the Company.

Save as above, pursuant to the terms of the sales and purchase agreement entered between New Grace Gain and Blessing Well on 27 April 2018, New Grace Gain provided the Unsecured Loan to the Company on 25 May 2018. New Grace Gain shall not be entitled to demand early repayment and the Company has no right to make early repayment of the Unsecured Loan.

All bank and other borrowings were denominated in Hong Kong Dollars ("HK$") and interests on bank borrowings were mainly charged at floating rates. The Group currently does not have any interest rate hedging policy while the Group pays vigilant attention to and monitors interest rate risks continuously and cautiously.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has normally funded its liquidity and capital requirements primarily through capital contributions from the shareholders, bank borrowings and net cash generated from operating activities.

As at 30 September 2018, the Group had pledged bank deposits and bank and cash balances of approximately HK$43,983,000 (31 March 2018: approximately HK$22,728,000). The gearing ratio of the Group as at 30 September 2018 (defined as the total borrowings divided by total equity) was 112.4% (31 March 2018: 46.6%). As at 30 September 2018, the current ratio of the Group was 2.4 (31 March 2018: 1.6).

During the six months ended 30 September 2018, the Group did not employ any financial instruments for hedging purpose.

FOREIGN EXCHANGE EXPOSURE

The Group has a minimal exposure to foreign currency risk as most of its business transactions and assets and liabilities are principally denominated in the functional currencies of the Group, i.e., HK$. As such, the Group currently does not have any foreign currency hedging policy in respect of foreign currency transactions and assets and liabilities as the Group's risk in foreign exchange is insignificant. The Group monitors its foreign currency exposure closely and will consider adopting hedging policy should the need arise.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

During the six months ended 30 September 2018, the Group did not have any significant investments, material acquisitions or disposals.

CAPITAL COMMITMENTS

As at 30 September 2018, the Group did not have any significant capital commitments (31 March 2018: Nil).

CONTINGENT LIABILITIES

Save as disclosed in note 15 to the condensed consolidated interim financial statements, the Group did not have any other significant contingent liabilities as at 30 September 2018.

EVENT AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting period and up to the date of this interim results announcement.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2018, the Group had 139 employees (31 March 2018: 119 employees). Most of the Group's employees are foundation workers in Hong Kong. The remuneration policy and package of the Group's employees are reviewed periodically. Apart from the Mandatory Provident Fund and in-house training programmes, salaries increments and discretionary bonuses may be awarded to employees according to the assessment of individual performance. The total staff costs incurred by the Group during the six months ended 30 September 2018 were approximately HK$25,296,000 (during the six months ended 30 September 2017: approximately HK$25,805,000).

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend to the shareholders for the six months ended 30 September 2018.

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

During the six months ended 30 September 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

CORPORATE GOVERNANCE

Save as disclosed below, during the six months ended 30 September 2018, the Company had complied with the code provisions of the Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Listing Rules.

In respect of code provision C.2.5 of the CG Code, the Company should have an internal audit (the "IA") function. Although the Company did not establish a standalone IA department during the six months ended 30 September 2018, the Board had put in place adequate measures to perform the IA function at different aspects of the Group as the Company considers that close and regular supervision by the Executive Directors and senior management, and the maintenance of internal control guidance and procedures on the Group's critical operational cycles could provide sufficient and effective internal control and risk management functions. Details of which were disclosed in the Company's annual report 2017/18.

The Board regularly reviews the effectiveness of the Group's internal control system at its Board meeting including its financial, operational and compliance controls and risk management functions.

The Board will review the need for the IA function on an annual basis.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. All the Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Model Code throughout the six months ended 30 September 2018.

SHARE OPTIONS

Share Option Scheme

The Company adopted a share option scheme on 19 February 2016 (the "2016 Share Option Scheme"). No share option has been granted under the 2016 Share Option Scheme since its adoption.

REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Audit Committee comprises three Independent Non-executive Directors with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the Board. The Audit Committee has reviewed and discussed with the management the condensed consolidated interim financial statements of the Group for the six months ended 30 September 2018.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange and the Company. The interim report of the Company will be despatched to the shareholders and will also be published on the above websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business associates and other professional parties for their support throughout the period.

By Order of the Board
K. H. Group Holdings Limited
劍虹集團控股有限公司
Chen Rongsheng
Chairman and Executive Director

Hong Kong, 30 November 2018

As at the date of this announcement, the Board comprises two Executive Directors, namely, Mr. Chen Rongsheng (Chairman) and Mr. Guan Jingdong and three Independent Non-executive Directors, namely, Dr. Luo Tiejian, Dr. Lu Haitian and Mr. Liu Xin.

If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.