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 ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

The board (the "Board") of directors (the "Directors") of K. H. Group Holdings Limited (the "Company") announces the consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2019, together with the comparative figures for the corresponding year ended 31 March 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	5	**203,015**	225,579
Cost of sales		**(201,188)**	(222,759)
Gross profit		**1,827**	2,820
Other income		**15,921**	137
Administrative and other operating expenses		**(40,589)**	(30,624)
Loss from operations		**(22,841)**	(27,667)
Finance costs	6	**(6,266)**	(1,430)
Loss before tax		**(29,107)**	(29,097)
Income tax credit	7	**—**	3,907
Loss and total comprehensive income for the year attributable to owners of the Company	8	**(29,107)**	(25,190)
		HK$	*HK$*
Loss per share			
— Basic	10(a)	**7.3 cents**	6.3 cents
— Diluted	10(b)	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**63,394**	64,166
Current assets			
Inventories		**6,431**	4,212
Trade and retention receivables	*11*	**15,745**	52,000
Contract assets	*12*	**150,009**	—
Gross amounts due from customers for contract work	*12*	—	84,103
Prepayments, deposits and other receivables		**9,677**	10,320
Pledged bank deposits		**10,214**	10,138
Bank and cash balances		**71,800**	12,590
		263,876	173,363
Current liabilities			
Trade and retention payables	*13*	**89,747**	45,088
Contract liabilities	*12*	**531**	—
Gross amounts due to customers for contract work	*12*	—	2,225
Accruals and other payables		**11,445**	6,930
Finance lease payables		**15,924**	26,397
Bank borrowings		**27,398**	30,007
		145,045	110,647
Net current assets		**118,831**	62,716
Total assets less current liabilities		**182,225**	126,882
Non-current liabilities			
Finance lease payables		**812**	1,868
Other borrowing, unsecured		**90,006**	—
		90,818	1,868
NET ASSETS		**91,407**	125,014
Capital and reserves			
Share capital		**4,000**	4,000
Reserves		**87,407**	121,014
TOTAL EQUITY		**91,407**	125,014

NOTES

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 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 "Listing Date").

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.

With reference to the joint announcement made by the Company and Blessing Well Enterprise Limited ("Blessing Well") on 7 May 2018 (the "Joint Announcement"), the Company has been notified by New Grace Gain Limited ("New Grace Gain") that after trading hours on 27 April 2018, Blessing Well (as the purchaser), New Grace Gain (as the vendor) and its ultimate beneficial owners, Mr. Yeung Sau Ming, Boris, Mr. Yue Suen Leung and Mr. Lau Tai Wah, Gilbert (as the guarantors), entered into a sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which New Grace Gain agreed to sell and Blessing Well agreed to purchase 300,000,000 shares of the Company, representing 75% of the issued shares of the Company as at the date of the Joint Announcement, for a total cash consideration of HK$596,250,000 (the "Event of the Change of Substantial Shareholders"). Completion of the abovementioned transaction took place on 30 April 2018. Details of which are set out in the Joint Announcement.

As a result of the Event of the Change of Substantial Shareholders, Blessing Well has become the controlling and substantial shareholder of the Company since 30 April 2018 while New Grace Gain, Mr. Yeung Sau Ming, Boris, Mr. Yue Suen Leung and Mr. Lau Tai Wah, Gilbert ceased to be the controlling and substantial shareholders of the Company on 30 April 2018.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements have been prepared under the historical cost convention.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the 2018 annual consolidated financial statements.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

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 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 change in accounting policies are disclosed in 3(a)(i) and 3(a)(ii) for HKFRS 9 and HKFRS 15 respectively. 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 at 1 April 2018, comparative information is not restated.

(i) 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 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 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 at 1 April 2018.

	HK$'000
Retained profits	
Recognition of additional expected credit losses on:	
— Trade and retention receivables	(154)
— contract assets	(4,346)
Decrease in retained profits 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:

a. *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 and at fair value through profit or loss ("FVTPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. 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.

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 at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

b. *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(a)(ii));

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

(ii) 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.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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 at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 April 2018.

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 to previous accounting policies are set out below:

a. *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 3 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.

b. *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 receiving the consideration or 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 consolidated statement of financial position under "gross amounts due from customers for contract work" or "gross amounts due to customers for contract work" respectively. Receivables for which the Group's entitlement to the consideration was conditional on achieving certain milestones or satisfactory completion of the retention period were presented in the consolidated statement of financial position as "retention receivable" under "trade and retention receivables".

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

(i) "Gross amounts due from customers for contract work" amounting to approximately HK$84,103,000 is now included under contract assets;

(ii) "Gross amounts due to customers for contract work" amounting to approximately HK$1,879,000 and approximately HK$346,000 are now included under contract assets and contract liabilities respectively; and

(iii) "Retention receivables" under "Trade and retention receivables" amounting to approximately HK$37,501,000 and approximately HK$185,000 are now included under contract assets and contract liabilities respectively.

c. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 March 2018 as a result of the adoption of HKFRS 15 on 1 April 2018*

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 March 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) *HK$'000*	Hypothetical amounts under HKASs 18 and 11 (B) *HK$'000*	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A) − (B) *HK$'000*
Line items in the consolidated statement of financial position as at 31 March 2018 impacted by the adoption of HKFRS 15:			
Trade and retention receivables	14,314	52,000	(37,686)
Contract assets	119,725	—	119,725
Gross amounts due from customers for contract work	—	84,103	(84,103)
Total current assets	171,299	173,363	(2,064)
Contract liabilities	161	—	161
Gross amounts due to customers for contract work	—	2,225	(2,225)
Total current liabilities	108,583	110,647	(2,064)
Net current assets	62,716	62,716	—
Net assets	125,014	125,014	—
Reserves	121,014	121,014	—
Total equity	125,014	125,014	—

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 April 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16 Leases	1 January 2019
HK(IFRIC) − Int 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRs 2015–2017 Cycle	1 January 2019
Amendments to HKAS 28 Long-term Interest in Associates and Joint Ventures	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 September 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or finance leases.

HKFRS 16 is effective for annual periods beginning on or after 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

The Group's future minimum lease payments under non-cancellable operating leases amounted to approximately HK$4,249,000 as at 31 March 2019. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

HK(IFRIC) – Int 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

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 Directors 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		Leasing		Total	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**202,806**	225,579	**209**	—	**203,015**	225,579
Reportable segment results	**(14,465)**	(13,669)	**(2,228)**	(882)	**(16,693)**	(14,551)
Central administrative expenses and directors' emoluments					**(12,414)**	(14,546)
Loss before tax					**(29,107)**	(29,097)
Reportable segment results include:						
Interest income	**78**	61	**—**	—	**78**	61
Finance costs	**1,882**	1,946	**280**	38	**2,162**	1,984
Depreciation	**5,915**	7,552	**1,822**	753	**7,737**	8,305
Additions to property, plant and equipment	**7,034**	16,180	**—**	7,000	**7,034**	23,180
Written off of contract assets	**2,998**	—	**—**	—	**2,998**	—

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

Segment results represent loss attributable to the segment without allocation of corporate income, central administrative expenses and directors' emoluments.

Segment assets and liabilities

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

	2019	2018
	HK$'000	*HK$'000*
SEGMENT ASSETS		
Foundation	**263,248**	226,841
Leasing	**9,116**	10,588
Total segment assets	**272,364**	237,429
Unallocated assets	**55,915**	100
Consolidated assets	**328,279**	237,529
SEGMENT LIABILITIES		
Foundation	**137,083**	106,386
Leasing	**3,883**	6,055
Total segment liabilities	**140,966**	112,441
Unallocated liabilities	**95,906**	74
Consolidated liabilities	**236,872**	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 the Group's management.

Seasonality of operations

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

Geographical information

All non-current assets as at 31 March 2019 and 2018 and the Group's revenue from external customers during the years ended 31 March 2019 and 2018 are located in and generated from Hong Kong.

Revenue from major customers

The Group's customer base for whom transactions have exceeded 10% of its revenue during the years ended 31 March 2019 and 2018 is set out as below:

	2019	2018
	HK$'000	*HK$'000*
Foundation		
Customer 1	**45,279**	N/A*
Customer 2	**22,698**	N/A*
Customer 3	**22,011**	28,914
Customer 4	**N/A***	96,809
Customer 5	**N/A***	23,008

* Amount represented less than 10% of the revenue during the year.

5. REVENUE

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

	2019	2018
	HK$'000	*HK$'000*
Recognised over time under HKFRS 15		
Provision of foundation services	**202,806**	225,579
Revenue from other sources		
Leasing of machinery	**209**	—
	203,015	225,579

As at 31 March 2019, the aggregated amount of revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the reporting date is approximately HK$247,624,000. The Group will recognise the expected revenue in future when or as the work is completed which is expected to occur over the next 12 to 24 months. This analysis is solely for compliance with HKFRS 15 disclosure requirement in respect of transaction price allocated to the remaining performance obligations.

6. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Finance lease charges	**1,103**	996
Interest on bank borrowings	**1,059**	995
Imputed interest expenses	**4,616**	—
	6,778	1,991
Less: Amounts attributable to contract works	**(512)**	(561)
	6,266	1,430

7. INCOME TAX CREDIT

	2019	2018
	HK$'000	*HK$'000*
Deferred tax	**—**	3,907

Hong Kong Profits Tax has been provided at a rate of 16.5% (2018: 16.5%) on the estimated profit for the year ended 31 March 2019.

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits for the year ended 31 March 2019 (2018: Nil).

The reconciliation between the income tax credit and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2019	2018
	HK$'000	*HK$'000*
Loss before tax	**(29,107)**	(29,097)
Tax at the Hong Kong Profits Tax rate of 16.5%	**(4,803)**	(4,801)
Tax effect of income that is not taxable	**(2,614)**	—
Tax effect of expenses that are not deductible	**6,700**	517
Tax effect of temporary differences not recognised	**(92)**	(310)
Tax effect of tax losses not recognised	**809**	687
Income tax credit	**—**	(3,907)

8. LOSS FOR THE YEAR

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

		2019	2018
	Note	***HK$'000***	*HK$'000*
Auditor's remuneration		**650**	638
Costs of construction materials	*(a)*	**38,065**	83,270
Depreciation	*(b)*	**7,737**	8,305
Written off of contract assets	*(c)*	**2,998**	—
Gain on disposals of property, plant and equipment, net	*(d)*	**(11)**	(63)
Operating lease charges	*(e)*		
— Hire of plant and equipment		**8,109**	5,290
— Land and buildings		**5,432**	3,724

Notes:

(a) The amounts included in cost of sales.

(b) The amounts included in cost of sales for the years ended 31 March 2019 and 2018 amounted to approximately HK$2,339,000 and approximately HK$3,202,000 respectively.

(c) The amounts included in administrative and other operating expenses.

(d) The amounts included in cost of sales for the years ended 31 March 2019 and 2018 amounted to net gain of approximately HK$11,000 and approximately HK$33,000 respectively.

(e) The amounts included in cost of sales for the years ended 31 March 2019 and 2018 amounted to approximately HK$10,442,000 and approximately HK$6,782,000 respectively.

9. DIVIDENDS

The Board does not recommend the payment of a final dividend to the shareholders for the year ended 31 March 2019 (2018: Nil).

10. LOSS PER SHARE

(a) Basic loss per share

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

	2019	2018
	HK$'000	*HK$'000*
Loss for the purpose of calculating basic loss per share	**(29,107)**	(25,190)

	2019	2018
	'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 years ended 31 March 2019 and 2018.

11. TRADE AND RETENTION RECEIVABLES

	Note	2019 HK$'000	2018 HK$'000
Trade receivables	(a)	**15,745**	14,314
Retention receivables	(b)	**—**	37,686
	(c)	**15,745**	52,000

Notes:

(a) The Group's trade receivables represent progress billings receivables from contract customers. The general credit terms of trade receivables were within 14 days to 45 days. Application for progress payment of contract works is made on a regular basis. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by directors.

The ageing analysis of the Group's trade receivables, based on the progress payment, is as follows:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**10,747**	14,314
31 to 60 days	**4,998**	—
	15,745	14,314

As at 31 March 2019, approximately HK$1,825,000 (2018: Nil) was past due but not impaired. These related to a number of independent customers for whom there were no recent history of default. The ageing analysis of these trade receivables is as follows:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**1,616**	—
31 to 60 days	**209**	—
	1,825	—

The carrying amounts of the Group's trade receivables are denominated in Hong Kong dollars.

(b) The Group's retention receivables represent certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated as a prescribed percentage of the contract sum. The retention receivables should be released to the Group pursuant to the provisions of the relevant contracts after the completion of the projects (i.e. 12 months after the completion of the contracts).

Upon the adoption of HKFRS 15, retention receivables are included in contract assets or contract liabilities on a net basis for a single contract with the customer (note 12).

As at 31 March 2018, the Group's retention receivables of approximately HK$24,357,000 were past due but not impaired. These relate to a number of independent customers for whom there are no recent history of default. The ageing analysis of these retention receivables is as follows:

	2018
	HK$'000
Less than 3 months	850
3 to 6 months	66
Over 6 months	23,441
	24,357

As at 31 March 2018, the amount of the Group's retention receivables expected to be recovered after more than twelve months was approximately HK$5,425,000.

The carrying amounts of the Group's retention receivables are denominated in Hong Kong dollars.

(c) As part of its normal business, the Group entered into a factoring arrangement and transferred certain trade and retention receivables to a bank. If these receivables are not paid at maturity, the bank has the right to request the Group to pay the unsettled balances. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the receivables. Cash received from the bank are recognised as factoring loans.

As at 31 March 2019, the carrying amount of the trade receivables and retention receivables under contract assets or contract liabilities that have been transferred but have not been derecognised amounted to approximately HK$10,097,000 (2018: approximately HK$16,992,000). The carrying amount of the factoring loans financed as at 31 March 2019 is approximately HK$6,030,000 (2018: approximately HK$8,019,000).

12. CONTRACT ASSETS/(LIABILITIES) (2018: GROSS AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK)

	2018 *HK$'000*
Contract costs incurred plus recognised profits less recognised losses to date	910,785
Less: Progress billings	(828,907)
	81,878
Gross amounts due from customers for contract work *(note)*	84,103
Gross amounts due to customers for contract work	(2,225)
	81,878

Upon the adoption of HKFRS 15, amounts previously included as "Gross amount due from customers for contract work", "Gross amount due to customers for contract work" and "retention receivables" were reclassified to contract assets or contract liabilities on a net basis for a single contract with the customer.

Contract assets	**31 March 2019** ***HK$'000***	1 April 2018 *HK$'000*	31 March 2018 *HK$'000*
Arising from performance under construction contracts *(note)*	**150,009**	119,725	—

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones.

There were no significant changes in the contract assets balances during the reporting period.

The amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous period is approximately HK$18,205,000, mainly due to the changes in estimate of the stage of completion of certain construction contracts.

The amount of contract assets that is expected to be recovered after more than one year is approximately HK$2,851,000 (2018: Nil).

Contract liabilities	**31 March 2019** *HK$'000*	1 April 2018 *HK$'000*	31 March 2018 *HK$'000*
Billings in advance of performance obligation			
— Construction contracts	**531**	161	—

Contract liabilities relating to construction contracts are balances due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method.

There were no significant changes in the contract liabilities balances during the reporting period.

Movements in contract liabilities:

	2019 *HK$'000*
Balance at 1 April	**161**
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	**(161)**
Increase in contract liabilities as a result of billing in advance of construction activities	**531**
Balance at 31 March	**531**

None of billings in advance of performance received that is expected to be recognised as income after more than one year (2018: Nil).

Note: During the year ended 31 March 2019, the Group has been negotiating the final settlement amount of a completed contract with a customer. The customer indicated that it is seeking to deduct from the final settlement amount the sum of approximately HK$23,450,000 for the liquidated damages arising from delays in completion of a completed project (the "**LD**"). Up to the date of these consolidated financial statements, the negotiations with the customer are still in progress.

The directors are of the opinion that the negotiations with the customer are still in progress and based on the opinion of an independent professional consultant, believe that such LD is unlikely to succeed and accordingly, the Group has not recognised any amounts in respect of the LD in the consolidated financial statements.

13. TRADE AND RETENTION PAYABLES

	Note	2019 *HK$'000*	2018 *HK$'000*
Trade payables	*(a)*	**76,450**	33,498
Retention payables	*(b)*	**13,297**	11,590
		89,747	45,088

Notes:

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

	2019 *HK$'000*	2018 *HK$'000*
0 to 30 days	**50,319**	16,602
31 to 60 days	**8,139**	9,469
61 to 90 days	**7,201**	538
Over 90 days	**10,791**	6,889
	76,450	33,498

The carrying amounts of the Group's trade payables are denominated in Hong Kong dollars.

(b) As at 31 March 2019, the amount of the Group's retention payables expected to be due after more than twelve months was approximately HK$1,852,000 (2018: approximately HK$2,073,000).

The carrying amounts of the Group's retention payables are denominated in Hong Kong dollars.

14. CONTINGENT LIABILITIES

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

	2019 *HK$'000*	2018 *HK$'000*
Guarantees on performance bonds for construction contracts	**50,312**	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 this announcement, 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 then 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.

15. CAPITAL COMMITMENTS

No Group's capital commitments at the end of reporting period (2018: Nil).

BUSINESS REVIEW

During the year ended 31 March 2019, the Group was principally engaged in the provision of foundation services (the "Foundation") and the leasing of machinery ("the Leasing") in Hong Kong.

There were 8 active projects as at 31 March 2018. As at 31 March 2019, one of these projects has been practically completed while the other 7 projects remain in progress.

During the year ended 31 March 2019, 7 new projects have been awarded to the Group and all of them remain in progress as at 31 March 2019. As such, there were a total of 14 projects in progress as at 31 March 2019.

FINANCIAL REVIEW

Revenue

The Group's overall revenue decreased by 10.0% from approximately HK$225,579,000 during the year ended 31 March 2018 to approximately HK$203,015,000 during the year ended 31 March 2019. The decrease in the Group's overall revenue was mainly due to the net effect of:

1. one large foundation project has reached the finalisation stage, by which it contributed revenue of approximately HK$6,211,000 during the year ended 31 March 2019 as compared to approximately HK$96,809,000 during the corresponding year of 2018; and

2. increase in progress for active projects during the year ended 31 March 2019.

Gross Profit/Gross Profit Margin

The overall gross profit decreased by 35.2% from approximately HK$2,820,000 during the year ended 31 March 2018 to approximately HK$1,827,000 during the year ended 31 March 2019. Such decrease was in line with the decrease in the Group's overall revenue as explained above.

The Group's gross profit margin decreased from approximately 1.3% during the year ended 31 March 2018 to approximately 0.9% during the year ended 31 March 2019. The decrease in gross profit margin was mainly due to the unexpected additional construction costs incurred towards the completion stage of certain foundation projects.

Other Income

The Group's other income increased from approximately HK$137,000 during the year ended 31 March 2018 to approximately HK$15,921,000 during the year ended 31 March 2019. Such increase was mainly due to a non-recurring imputed interest income of approximately HK$14,610,000 arising from the unsecured and interest-free borrowing amounting to HK$100,000,000 obtained from New Grace Gain in May 2018.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses increased by 32.5% from approximately HK$30,624,000 during the year ended 31 March 2018 to approximately HK$40,589,000 during the year ended 31 March 2019. The increase in administrative and other operating expenses were mainly due to the payments of consulting and professional fees of approximately HK$7,917,000 and written off of contract assets of approximately HK$2,998,000 during the year ended 31 March 2019.

Finance Costs

The Group's finance costs increased from approximately HK$1,430,000 during the year ended 31 March 2018 to approximately HK$6,266,000 during the year ended 31 March 2019. Such increase was mainly due to the imputed interest expenses of approximately HK$4,616,000 arising from the unsecured and 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 year under review, the Group reported a net loss of approximately HK$29,107,000 (2018: approximately HK$25,190,000).

DEBTS AND CHARGE ON ASSETS

The total interest-bearing borrowings of the Group, including bank borrowings and finance lease payables, decreased from approximately HK$58,272,000 as at 31 March 2018 to approximately HK$44,134,000 as at 31 March 2019. As at 31 March 2019, these banking facilities were secured by (i) the Group's trade receivables and retention receivables under contract assets or contract liabilities of approximately HK$10,097,000 (31 March 2018: trade and retention receivables of approximately HK$16,992,000); (ii) the Group's pledged bank deposits of approximately HK$10,214,000 (31 March 2018: approximately HK$10,138,000); (iii) the Group's property, plant and equipment with total net carrying amounts of approximately HK$41,530,000 (31 March 2018: approximately HK$53,312,000); and (iv) corporate guarantee executed by the Company.

Save as disclosed above, pursuant to the sale and purchase agreement entered between Blessing Well and New Grace Gain, New Grace Gain has provided to the Company an unsecured loan of HK$100,000,000 ("Unsecured Loan") on 25 May 2018. The Unsecured Loan is interest-free and repayable on 25 November 2020. 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.

Borrowings were denominated in Hong Kong dollars ("HK$") and interests on certain borrowings were 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 normally meets its liquidity and capital requirements primarily through capital contributions from the shareholders and bank and other borrowings.

As at 31 March 2019, the Group had pledged bank deposits, and bank and cash balances of approximately HK$82,014,000 (31 March 2018: approximately HK$22,728,000). The gearing ratio of the Group as at 31 March 2019 (defined as the total borrowings divided by total equity) was approximately 146.8% (31 March 2018: approximately 46.6%). As at 31 March 2019, the current ratio of the Group was approximately 1.8 (31 March 2018: approximately 1.6).

During the year ended 31 March 2019, 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

Save as additions of property, plant and equipment amounting to approximately HK$7,034,000, the Group did not have any other significant investments, material acquisitions or disposals during the year ended 31 March 2019.

There was no formal plan authorised by the Board for any significant investments, material acquisitions or disposals as at 31 March 2019 and up to the date of this announcement.

Despite the Event of the Change of Substantial Shareholders, Blessing Well has no definitive intention and plans for any acquisition or disposal of assets and/or business of the Group as disclosed in the Joint Announcement.

EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after 31 March 2019 and up to the date of this announcement.

FINAL DIVIDEND

The Board does not recommend payment of a final dividend to the Shareholders for the year ended 31 March 2019 (2018: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2019, the Group had 137 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 periodically reviewed. Apart from the Mandatory Provident Fund and in-house training programmes, salary 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 year ended 31 March 2019 were approximately HK$52,521,000 (2018: approximately HK$46,844,000).

PROSPECTS

Due to the decrease in the number of foundation contracts available from both the public and the private sectors and keen competition among the market players, the foundation industry was tough and challenging during the year. The Group will continue to adjust its tendering strategies by widening its customer base and implementing a tight cost control so as to maintain its competitiveness and protect its shareholders' interests.

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 of land supply for housing developments for both the private and the public sectors as well as fostering infrastructure development plans in the long term.

Apart from foundation services and leasing of machinery, the Group will also try to explore and identify any suitable investment opportunities in order to broaden our revenue base for maximisation of return to our shareholders.

CORPORATE GOVERNANCE

Save as disclosed below, during the year ended 31 March 2019 and up to the date of this announcement, the Company has complied with all the code provisions, where applicable, as set out in the Corporate Governance Code (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Under the code provision A.2.1 of the CG Code, the roles of the chairman of the board and chief executive ("CE") should be separate and should not be performed by the same individual.

Mr. Chen Rongsheng is the Chairman of the Board. There is not a post of the CE in the Company. The responsibilities of the chairman of the Board and the CE of the Company are currently taken up by the Chairman of the Board and the other members of the Board. The Board will continuously review and improve the corporate governance practices and standards of the Group to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

Risk Management and Internal Controls

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 year ended 31 March 2019, the Board has 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.

Same as last year's practice, the Company has engaged an external independent internal control adviser to conduct a review on the internal control procedures of the Group at both corporate level and business level. No significant areas of improvement which are required to be brought to the attention of the Audit Committee have been revealed.

As such, the Board is satisfied that the Group's internal control procedures including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place and considers that the Group's internal control procedures and risk management functions are both effective and adequate.

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

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

During the year ended 31 March 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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 year ended 31 March 2019.

AUDIT COMMITTEE

The Audit Committee is currently made up of three Independent Non-executive Directors, including Mr. Liu Xin (chairman of the Audit Committee), Dr. Luo Tiejian and Dr. Lu Haitian. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 March 2019.

The Audit Committee held 2 committee meetings during the year ended 31 March 2019.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company for the year ended 31 March 2019 (the "2019 AGM") will be held on a date to be fixed by the Board, and a notice convening the 2019 AGM will be published and despatched to the Shareholders in due course.

SCOPE OF WORK OF WORLD LINK CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2019 as set out in this announcement have been agreed by the Group's auditor, World Link CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2019. The work performed by World Link CPA Limited 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 Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by World Link CPA Limited on this annual results announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.kh-holdings.com. The annual report of the Company for the year ended 31 March 2019 will be despatched to the Shareholders and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere appreciation to our Shareholders, customers and suppliers for their continuous support, as well as our management team and staff for their hard work and contributions.

By Order of the Board
K. H. Group Holdings Limited
Chen Rongsheng
Chairman and Executive Director

Hong Kong, 28 June 2019

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