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 2020

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 2020, together with the comparative figures for the corresponding year ended 31 March 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Note	2020 HK$'000	2019 HK$'000
Revenue	5	**374,903**	203,015
Cost of services rendered		**(334,061)**	(201,188)
Gross profit		**40,842**	1,827
Other income		**3,545**	15,921
Administrative and other operating expenses		**(34,627)**	(40,589)
Provision for expected credit loss ("ECL") on trade receivables and contract assets		**(1,521)**	—
Profit/(loss) from operations		**8,239**	(22,841)
Finance costs	6	**(7,230)**	(6,266)
Profit/(loss) before tax		**1,009**	(29,107)
Income tax	7	**—**	—
Profit/(loss) and total comprehensive income for the year attributable to owners of the Company	8	**1,009**	(29,107)
		HK$	*HK$*
Earnings/(loss) per share			
— Basic	10(a)	**0.3 cents**	(7.3 cents)
— Diluted	10(b)	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment		**24,896**	63,394
Deposit and prepayment for a life insurance policy		**9,003**	—
Right-of-use assets		**32,373**	—
		66,272	63,394
Current assets			
Inventories		**4,167**	6,431
Trade receivables	*11*	**41,098**	15,745
Contract assets	*12*	**207,707**	150,009
Prepayments, deposits and other receivables		**12,177**	9,677
Pledged bank deposits		**16,308**	10,214
Bank and cash balances		**71,062**	71,800
		352,519	263,876
Current liabilities			
Trade and retention payables	*13*	**158,725**	89,747
Contract liabilities	*12*	**5,272**	531
Accruals and other payables		**9,516**	11,445
Lease liabilities		**9,745**	—
Finance lease payables		**—**	15,924
Bank borrowings, secured		**49,740**	27,398
		232,998	145,045
Net current assets		**119,521**	118,831
Total assets less current liabilities		**185,793**	182,225
Non-current liabilities			
Lease liabilities		**483**	—
Finance lease payables		**—**	812
Other borrowing, unsecured		**92,894**	90,006
		93,377	90,818
NET ASSETS		**92,416**	91,407
Capital and reserves			
Share capital		**4,000**	4,000
Reserves		**88,416**	87,407
TOTAL EQUITY		**92,416**	91,407

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.

At the end of the reporting period, the directors of the Company are of the opinion that, Blessing Well Enterprise Limited ("Blessing Well"), a company incorporated in the British Virgin Islands, is the ultimate holding company of the Company.

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 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 2019 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 new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16	Lease
HK(IFRIC) 23	Uncertainty over income tax treatments
Amendments to HKFRS 9	Financial Instruments: Prepayments Features with Negative Compensation
Amendments to HKAS 19	Employee Benefits
Amendments to HKFRS 3	Business Combinations
Amendments to HKAS 12	Income Taxes
Amendments to HKAS 28	Long-term Interests in Associate and Joint Ventures
Amendments to HKAS 23	Borrowing Costs

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases — Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied 5%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020;

(ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of leasehold lands and properties was determined on a portfolio basis;

(iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

(iv) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(v) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

The following table reconciles the operating lease commitments as disclosed in note 36 to the consolidated financial statements as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	HK$'000
Operating lease commitments disclosed as at 31 March 2019	4,249
Less: commitments relating to lease exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(1,788)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	740
	3,201
Less: total future interest expenses	(98)
Present value of remaining lease payments, discounted using the incremental borrowing rate as at 1 April 2019	3,103
Add: finance lease liabilities recognised as at 31 March 2019	16,736
Lease liabilities recognised as at 1 April 2019	19,839
Of which are:	
Current lease liabilities	18,246
Non-current lease liabilities	1,593
	19,839

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 March 2019.

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Finance lease payables", these amounts are included within "Lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summaries the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

		Effects of adoption of HKFRS 16			
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	*Note*	**Carrying amount as at 31 March 2019** *HK$'000*	**Reclassification** *HK$'000*	**Recognition of leases** *HK$'000*	**Carrying amount as at 1 April 2019** *HK$'000*
Assets					
Right-of-use assets		—	33,329	3,103	36,432
Property, plant and equipment	*(i)*	63,394	(33,329)	—	30,065
Liabilities					
Lease liabilities		—	16,736	3,103	19,839
Finance lease payables	*(ii)*	16,736	(16,736)	—	—

Note:

(i) In relation to assets previously under finance leases, the Group recategorises the carrying amount of the relevant asses which were still leased as at 1 April 2019 amounting to approximately HK$33,329,000 as right-of-use assets.

(ii) The Group reclassified the finance lease payables of approximately HK$15,924,000 and HK$812,000 to lease liabilities as current and non-current liabilities respectively as at 1 April 2019.

(c) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This result in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 March 2020, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2020 instead of HKFRS 16, and by comparing these hypothetical amounts for 2020 with the actual 2019 corresponding amounts which were prepared under HKAS 17.

	2020				2019
	Amounts reported under HKFRS 16 *HK$'000*	Add back: HKFRS 16 depreciation and interest expense *HK$'000*	Deduct: Estimated amounts related to operating lease as if under HKAS 17 *(note 1)* *HK$'000*	Hypothetical amounts for 2020 as if under HKAS 17 *HK$'000*	Compared to amounts reported for 2019 under HKAS 17 *HK$'000*
Financial result impacted by the adoption of HKFRS 16:					
Profit/(loss) from operations	**8,239**	**2,876**	**(2,993)**	**8,122**	(22,841)
Finance costs	**(7,230)**	**14**	**—**	**(7,216)**	(6,266)
Profit/(loss) before tax	**1,009**	**2,890**	**(2,993)**	**906**	(29,107)
Profit/(loss) for the year	**1,009**	**2,890**	**(2,993)**	**906**	(29,107)

	2020			2019
	Amounts reported under HKFRS 16 *HK$'000*	Estimated amounts related to operating leases as if under HKAS 17 *(notes 1 & 2)* *HK$'000*	Hypothetical amounts for 2020 as if under HKAS 17 *HK$'000*	Compared to amounts reported for 2019 under HKAS 17 *HK$'000*
Line items in the consolidated statement of cash flows impacted by the adoption of HKFRS 16:				
Cash generated from/(used in) operations	8,815	(2,993)	5,822	(18,769)
Interest element of lease rentals paid	(721)	126	(595)	—
Net cash generated from/(used in) operating activities	6,593	(2,867)	3,726	(20,931)
Capital element of lease rentals paid	(12,300)	2,867	(9,433)	—
Net cash from financing activities	10,024	2,867	12,891	83,434

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2020 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2020. This estimate assumes that there were no difference between rentals and cash flows and that all of the new

leases entered into in 2020 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(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 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform	1 January 2020

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 it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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 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	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**373,757**	202,806	**1,146**	209	**374,903**	203,015
Reportable segment results	**27,036**	(14,465)	**(1,999)**	(2,228)	**25,037**	(16,693)
Central administrative expenses and directors' emoluments					**(24,028)**	(12,414)
Profit/(loss) before tax					**1,009**	(29,107)
Reportable segment results include:						
Interest income	**93**	78	**—**	—	**93**	78
Finance costs	**1,808**	1,882	**400**	280	**2,208**	2,162
Depreciation on property, plant and equipment	**4,038**	5,915	**584**	1,822	**4,622**	7,737
Depreciation on right-of-use assets	**4,485**	—	**2,072**	—	**6,557**	—
Additions to property, plant and equipment	**2,371**	7,034	**—**	—	**2,371**	7,034
Written off of contract assets	**4,567**	2,998	**—**	—	**4,567**	2,998

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

Segment results represent profit/(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:

	2020	2019
	HK$'000	*HK$'000*
SEGMENT ASSETS		
Foundation	**328,396**	261,103
Leasing	**17,603**	10,252
Total segment assets	**345,999**	271,355
Unallocated assets	**72,792**	55,915
Consolidated assets	**418,791**	327,270
SEGMENT LIABILITIES		
Foundation	**222,650**	136,074
Leasing	**4,514**	3,883
Total segment liabilities	**227,164**	139,957
Unallocated liabilities	**99,211**	95,906
Consolidated liabilities	**326,375**	235,863

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 2020 and 2019 and the Group's revenue from external customers during the years ended 31 March 2020 and 2019 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 2020 and 2019 is set out as below:

	2020	2019
	HK$'000	*HK$'000*
Foundation		
Customer 1	**134,579**	N/A*
Customer 2	**46,144**	N/A*
Customer 3	**45,728**	N/A*
Customer 4	**N/A***	45,279
Customer 5	**N/A***	22,698
Customer 6	**N/A***	22,011

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

5. REVENUE

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

	2020	2019
	HK$'000	*HK$'000*
Recognised over time under HKFRS 15		
Provision of foundation services	**373,757**	202,806
Revenue from other sources		
Leasing of machinery	**1,146**	209
	374,903	203,015

As at 31 March 2020, 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$309,575,000 (2019: 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.

6. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Finance lease charges	**—**	1,103
Interest on bank borrowings	**1,501**	1,059
Interest on lease liabilities	**721**	—
Imputed interest expenses	**5,869**	4,616
	8,091	6,778
Less: Amounts attributable to contract works	**(861)**	(512)
	7,230	6,266

7. INCOME TAX

	2020	2019
	HK$'000	*HK$'000*
Deferred tax	**—**	—

Hong Kong Profits Tax would be provided at a rate of 16.5% (2019: 16.5%) on the estimated profit for the year ended 31 March 2020.

No provision for Hong Kong Profits Tax is required since the Group has sufficient tax losses brought forward to set off against current year's assessable profit (2019: no assessable profit for the year).

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

	2020	2019
	HK$'000	*HK$'000*
Profit/(loss) before tax	**1,009**	(29,107)
Tax at the Hong Kong Profits Tax rate of 16.5% (2019: 16.5%)	**166**	(4,803)
Tax effect of income that is not taxable	**(502)**	(2,614)
Tax effect of expenses that are not deductible	**2,116**	6,700
Tax effect of utilisation of tax losses not previously recognised	**(1,514)**	—
Tax effect of temporary differences not recognised	**(394)**	(92)
Tax effect of previous tax losses recognised	**(129)**	—
Tax effect of tax losses not recognised	**257**	809
Income tax	**—**	—

8. PROFIT/(LOSS) FOR THE YEAR

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

	Note	**2020** *HK$'000*	2019 *HK$'000*
Auditor's remuneration			
— Current		**650**	650
— Over-provision in prior years		**(32)**	—
Cost of construction materials	*(a)*	**52,051**	38,065
Depreciation on property, plant and equipment	*(b)*	**4,622**	7,737
Depreciation on right-of-use assets	*(b)*	**6,745**	—
Gain on disposals of property, plant and equipment, net		**(324)**	(11)
Written off of contract assets	*(c)*	**4,567**	2,998
Operating lease charges	*(d)*		
— Hire of plant and equipment		**—**	8,109
— Land and buildings		**—**	5,432
Lease payments not included in the measurement of lease liabilities	*(e)*	**9,401**	—

Notes:

(a) The amounts included in cost of services rendered.

(b) The amounts included in cost of services rendered for the years ended 31 March 2020 and 2019 amounted to approximately HK$7,966,000 and HK$2,339,000 respectively.

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

(d) The amounts included in cost of services rendered for the years ended 31 March 2020 and 2019 amounted to approximately HK$Nil and HK$10,442,000 respectively.

(e) The amounts included in cost of services rendered for the years ended 31 March 2020 and 2019 amounted to approximately HK$6,224,000 and HK$Nil respectively.

9. DIVIDENDS

The Board does not recommend the payment of a final dividend to the shareholders for the year ended 31 March 2020 (2019: Nil).

10. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the following:

	2020	2019
	HK$'000	*HK$'000*
Profit/(loss) for the purpose of calculating basic earnings/(loss) per share	**1,009**	(29,107)

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	**400,000**	400,000

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share to be presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 March 2020 and 2019.

11. TRADE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**41,143**	15,745
Less: Allowance for doubtful debts under ECL	**(45)**	—
	41,098	15,745

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, and net of allowance is as follows:

	2020	2019
	HK$'000	*HK$'000*
0 to 30 days	**38,152**	10,747
31 to 60 days	**2,857**	4,998
Over 60 days	**89**	—
	41,098	15,745

The carrying amounts of the Group's trade receivables are denominated in Hong Kong dollars ("HK$").

(b) As part of its normal business, the Group entered into certain factoring arrangements and transferred certain trade and retention receivables to the banks. If these receivables are not paid at maturity, the banks have 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 banks are recognised as factoring loans.

As at 31 March 2020, the aggregated carrying amount of trade receivables and retention receivables under contract assets or liabilities that have been transferred but have not been derecognised amounted to approximately HK$44,289,000 (2019: HK$10,097,000). The carrying amount of the factoring loans financed as at 31 March 2020 is approximately HK$34,978,000 (2019: HK$6,030,000).

12. CONTRACT ASSETS/(LIABILITIES)

Contract assets	**2020**	2019
	HK$'000	*HK$'000*
Arising from performance under construction contracts *(note)*	**207,707**	150,009
Receivables from contract with customers within the scope of HKFRS 15, which are included in "Trade receivables"	**41,009**	15,745

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$6,952,000 (2019: HK$ 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$10,117,000 (2019: HK$2,851,000).

Contract liabilities	**2020**	2019
	HK$'000	*HK$'000*
Billings in advance of performance obligation		
— Construction contracts	**5,272**	531

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:

	2020	2019
	HK$'000	*HK$'000*
Balance as at 1 April	**531**	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	**(531)**	(161)
Increase in contract liabilities as a result of billing in advance of construction activities	**5,272**	531
Balance as at 31 March	**5,272**	531

None of billings in advance of performance received that is expected to be recognised as income after more than one year (2019: Nil).

Note:

The Group has been negotiating the final settlement amount of a completed contract with a customer during the prior years.

During the year ended 31 March 2020, the Group commenced formal legal proceedings against this customer and this customer counterclaimed against the Group. This customer made a sanctioned payment into High Court as an attempt to settle the whole of the claim in relation to the abovementioned contract and the Group made a counter-proposal to settle the same claim to the customer. Up to the approval date on these consolidated financial statements, the legal proceedings are still in the process and no conclusive decision had been reached to resolve the claim.

The directors are of the opinion that the litigations with this customer are still in progress and it is pre-mature to assess the outcome for the said claim.

13. TRADE AND RETENTION PAYABLES

	Note	2020 HK$'000	2019 HK$'000
Trade payables	*(a)*	**128,298**	76,450
Retention payables	*(b)*	**30,427**	13,297
		158,725	89,747

Notes:

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

	2020 HK$'000	2019 HK$'000
0 to 30 days	**44,448**	50,319
31 to 60 days	**19,842**	8,139
61 to 90 days	**16,862**	7,201
Over 90 days	**47,146**	10,791
	128,298	76,450

The carrying amounts of the Group's trade payables are denominated in HK$.

(b) As at 31 March 2020, the amount of the Group's retention payables expected to be due after more than twelve months was approximately HK$13,634,000 (2019: HK$1,852,000).

The carrying amounts of the Group's retention payables are denominated in HK$.

14. CONTINGENT LIABILITIES

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

	2020 HK$'000	2019 HK$'000
Guarantees on performance bonds for construction contracts	**75,371**	50,312

As at 31 March 2020, the securities for the Group's performance bonds for construction contracts are as follows:

(i) guarantees on performance bonds amounting to approximately HK$69,459,000 (2019: approximately HK$50,312,000) are secured by (i) the Group's prepayments, deposits and other receivables of HK$2,936,000 (2019: Nil); (ii) a personal guarantee executed by a director of the a subsidiary of the Company; and (iii) corporate guarantees executed by the Company and a subsidiary of the Company.

(ii) guarantee on a performance bond amounting to approximately HK$5,912,000 (2019: Nil) is secured by (i) the Group's pledged bank deposits of approximately HK$10,307,000 (2019: Nil); and (ii) the corporate guarantee executed by the Company (2019: Nil).

(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 the Dispute by arbitration or by other means of dispute resolution.

Up to the date on these consolidated financial statements, the arbitration is still in the process and there is no conclusive decision had been reached 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 Limited ("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 (2019: Nil).

BUSINESS REVIEW

During the year ended 31 March 2020, 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 14 active projects as at 31 March 2019. As at 31 March 2020, 6 of these projects have been practically completed while the other 8 projects remain in progress.

During the year ended 31 March 2020, 5 new projects have been awarded to the Group and all of them remain in progress as at 31 March 2020. As such, there were a total of 13 projects in progress as at 31 March 2020.

Subsequent to 31 March 2020 and up to the date of this announcement, there were 3 new foundation projects awarded to the Group.

FINANCIAL REVIEW

Revenue

The Group's overall revenue increased by 84.7% from approximately HK$203,015,000 during the year ended 31 March 2019 to approximately HK$374,903,000 during the year ended 31 March 2020. The increase in the Group's overall revenue was mainly due to the increase in the number of active projects during the year ended 31 March 2020, especially attributable to a new project undertaken by the Group and commenced since September 2019.

Gross Profit/Gross Profit Margin

The overall gross profit increased by 2,135.5% from approximately HK$1,827,000 during the year ended 31 March 2019 to approximately HK$40,842,000 during the year ended 31 March 2020. Such increase was mainly attributable to the gross profit recognised from a new project undertaken by the Group and commenced since September 2019 as mentioned above.

As a result, the Group's gross profit margin increased from approximately 0.9% during the year ended 31 March 2019 to approximately 10.9% during the year ended 31 March 2020.

Other Income

The Group's other income decreased from approximately HK$15,921,000 during the year ended 31 March 2019 to approximately HK$3,545,000 during the year ended 31 March 2020. Such decrease was mainly due to a non-recurring imputed interest income of approximately HK$14,610,000 arose from the Unsecured Loan (as defined in the section "Debts and Charges on Assets" below) during the year ended 31 March 2019 as compared to a non-recurring imputed interest income of approximately HK$2,981,000 arose from the extension of the repayment period of the Unsecured Loan during the year ended 31 March 2020.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses decreased by 14.7% from approximately HK$40,589,000 during the year ended 31 March 2019 to approximately HK$34,627,000 during the year ended 31 March 2020. The decrease in administrative and other operating expenses was mainly due to the decrease in payments of consulting and professional fees from approximately HK$7,917,000 during the year ended 31 March 2019 to approximately HK$4,256,000 during the year ended 31 March 2020.

Finance Costs

The Group's finance costs increased from approximately HK$6,266,000 during the year ended 31 March 2019 to approximately HK$7,230,000 during the year ended 31 March 2020. Such increase was mainly due to the increase in the imputed interest expenses of approximately HK$4,616,000 arising from the Unsecured Loan during the year ended 31 March 2019 to approximately HK$5,869,000 during the year ended 31 March 2020.

Net Profit/(Loss)

As a result of the abovementioned, during the year under review, the Group reported a net profit of approximately HK$1,009,000 (2019: net loss of approximately HK$29,107,000).

DEBTS AND CHARGE ON ASSETS

As at 31 March 2020, the total debts of the Group, including bank borrowings, lease liabilities (2019: finance lease payables) and other borrowings is approximately HK$152,862,000 (2019: approximately HK$134,140,000).

As at 31 March 2020, the Group's banking facilities were secured by (i) the Group's trade receivables and retention receivables under contract assets or contract liabilities of approximately HK$44,289,000 (2019: approximately HK$10,097,000); (ii) the Group's pledged bank deposits of approximately HK$16,308,000 (2019: approximately HK$10,214,000); (iii) the Group's right-of-use assets and property, plant and equipment with total net carrying amounts of approximately HK$34,829,000 (2019: approximately HK$41,530,000); (iv) the Group's deposit and prepayment for a life insurance policy of approximately HK$9,003,000 (2019: Nil); and (v) the corporate guarantee executed by the Company.

Save as the above, pursuant to the terms of the sales and purchase agreement entered into between New Grace Gain and 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.

New Grace Gain and the Company further agreed to enter into a supplemental agreement on 31 March 2020 to extend the repayment period of the Unsecured Loan for 6 months, i.e. the repayment term of 30 months has been extended to 36 months. Save as the extension of the repayment period under the supplemental agreement, other terms and conditions of the Unsecured Loan remain unchanged.

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 normally meets its liquidity and capital requirements primarily through capital contributions from the shareholders and bank and other borrowings.

As at 31 March 2020, the Group had pledged bank deposits, and bank and cash balances of approximately HK$87,370,000 (2019: approximately HK$82,014,000). The gearing ratio of the Group as at 31 March 2020 (defined as the total borrowings divided by total equity) was approximately 165.4% (2019: approximately 146.8%). As at 31 March 2020, the current ratio of the Group was approximately 1.5 (2019: approximately 1.8).

During the year ended 31 March 2020, the Group did not employ any financial instruments for hedging purpose.

FOREIGN EXCHANGE EXPOSURE

The Group has minimal exposure to foreign currency risk, as except for United States Dollar ("US$") denominated deposit and prepayment for a life insurance policy and bank balances, most of its business transactions, assets and liabilities are principally denominated in HK$, the functional currencies of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis on life insurance policy will not be performed as US$ is pegged against HK$ and the risk of movements in exchange rates between US$ and HK$ to be insignificant.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

Save as additions and disposals of property, plant and equipment amounting to approximately HK$2,371,000 and HK$3,242,000 respectively and addition of a life insurance policy amounting to approximately HK$9,003,000, the Group did not have any other significant investments, material acquisitions or disposals during the year ended 31 March 2020.

There was no formal plan authorised by the Board for any significant investments, material acquisitions or disposals as at 31 March 2020 and up to the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

Epidemic of Coronavirus Disease 2019 (the "COVID-19 outbreak") since early 2020, the COVID-19 outbreak has spread across the PRC and other countries and it has affected the business and economic activities of the Group as well as the Group's customers and suppliers to some extent. The overall financial effect cannot be reliably estimated as of the date of this announcement. The Group will closely monitor the development of the COVID-19 outbreak and continue to evaluate its impact on the business, the financial position and operating results of the Group.

FINAL DIVIDEND

The Board does not recommend payment of a final dividend to the Shareholders for the year ended 31 March 2020 (2019: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2020, the Group had 132 employees (2019: 137 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 the employees according to the assessment of individual performance. The total staff costs incurred by the Group during the year ended 31 March 2020 were approximately HK$52,736,000 (2019: approximately HK$52,521,000).

PROSPECTS

The Group's outstanding value of the contracts on hand as at 31 March 2020 was approximately HK$310 million (2019: approximately HK$248 million). Subsequent to 31 March 2020, the Group has been awarded 3 foundation projects with original contract sum of approximately HK$1,242 million. As such the outstanding value of the contracts on hand is at a strong level. Consequently, the turnover and profits of the Group for the coming year are likely to secure.

Our business strategies are effective and rewarding as evidenced by the turnaround from net loss to net profit and the strong level of outstanding value of contract on hand. Land and housing are still the most important agendas in the 2019 Policy Address delivered by the Chief Executive of the Hong Kong Special Administrative Region. 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.

Notwithstanding the above, in view of the outbreak of social unrest and Covid-19, the foundation industry in Hong Kong still remains challenging and the Group will continue to adopt different tendering strategies by widening its customer base and implementing a tight cost control so as to maintain its competitiveness and protect its shareholders' interests.

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

CORPORATE GOVERNANCE

Save as disclosed below, during the year ended 31 March 2020 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 2020, 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 2020, 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 2020.

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 Professor Lu Haitian. Both Mr. Liu Xin (chairman of the Audit Committee) and Professor Lu Haitian possess the appropriate professional qualifications or accounting or related financial management expertise as required.

The Audit Committee held 4 committee meetings during the year ended 31 March 2020.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting (the "2020 AGM") of the Company for the year ended 31 March 2020 will be held on a date to be fixed by the Board, and a notice convening the 2020 AGM will be published and despatched to the Shareholders in due course.

SCOPE OF WORK OF MCMILLAN WOODS (HONG KONG) 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 2020 as set out in this announcement have been agreed by the Group's auditor, McMillan Woods (Hong Kong) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2020. The work performed by McMillan Woods (Hong Kong) 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 McMillan Woods (Hong Kong) 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 2020 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, 19 June 2020

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.