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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 2021

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 2021, together with the comparative figures for the corresponding year ended 31 March 2020, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	5	933,797	374,903
Cost of services rendered		<u>(892,144)</u>	<u>(334,061)</u>
Gross profit		41,653	40,842
Other income	6	12,699	3,545
Administrative and other operating expenses		(43,626)	(34,627)
Provision for expected credit loss (“ECL”) on trade receivables, other receivables and contract assets		<u>(2,142)</u>	<u>(1,521)</u>
Profit from operations		8,584	8,239
Finance costs	7	<u>(7,513)</u>	<u>(7,230)</u>
Profit before tax		1,071	1,009
Income tax	8	<u>—</u>	<u>—</u>
Profit and total comprehensive income for the year attributable to owners of the Company	9	<u>1,071</u>	<u>1,009</u>
		<i>HK\$</i>	<i>HK\$</i>
Earnings per share			
— Basic	11(a)	<u>0.3 cents</u>	<u>0.3 cents</u>
— Diluted	11(b)	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		42,158	24,896
Deposit and prepayment for a life insurance policy		9,274	9,003
Right-of-use assets		19,521	32,373
		<hr/> 70,953 <hr/>	<hr/> 66,272 <hr/>
Current assets			
Inventories		6,024	4,167
Trade receivables	<i>12</i>	81,624	41,098
Contract assets	<i>13</i>	309,034	207,707
Prepayments, deposits and other receivables		172,504	12,177
Pledged bank deposits		36,353	16,308
Bank and cash balances		6,400	71,062
		<hr/> 611,939 <hr/>	<hr/> 352,519 <hr/>
Current liabilities			
Trade and retention payables	<i>14</i>	372,025	158,725
Contract liabilities	<i>13</i>	2,112	5,272
Accruals and other payables		13,316	9,516
Lease liabilities		9,976	9,745
Bank borrowings, secured		97,154	49,740
		<hr/> 494,583 <hr/>	<hr/> 232,998 <hr/>
Net current assets		<hr/> 117,356 <hr/>	<hr/> 119,521 <hr/>
Total assets less current liabilities		<hr/> 188,309 <hr/>	<hr/> 185,793 <hr/>
Non-current liabilities			
Lease liabilities		1,928	483
Other borrowing, unsecured		92,894	92,894
		<hr/> 94,822 <hr/>	<hr/> 93,377 <hr/>
NET ASSETS		<hr/> 93,487 <hr/>	<hr/> 92,416 <hr/>
Capital and reserves			
Share capital		4,000	4,000
Reserves		89,487	88,416
		<hr/> 93,487 <hr/>	<hr/> 88,416 <hr/>
TOTAL EQUITY		<hr/> 93,487 <hr/>	<hr/> 92,416 <hr/>

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, 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").

At the end of the reporting period, the directors of the Company are of the opinion that, Blessing Well Enterprise Limited, a company incorporated in the British Virgin Islands ("BVI"), is the immediate holding company of the Company; and Sendlink Limited, a company incorporated in the BVI, 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 also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

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 Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 April 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of all new and the amendments to HKFRS in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has not early applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 April 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective.

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase ² ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁵
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ⁶
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for annual periods beginning on or after a date to be determined

⁵ Effective for annual periods beginning on or after 1 June 2020

⁶ Effective for annual periods beginning on or after 1 April 2021

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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	
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue	<u>933,797</u>	<u>373,757</u>	<u>—</u>	<u>1,146</u>	<u>933,797</u>	<u>374,903</u>
Reportable segment results	<u>26,921</u>	<u>27,036</u>	<u>(1,415)</u>	<u>(1,999)</u>	<u>25,506</u>	<u>25,037</u>
Central administrative expenses and directors' emoluments					<u>(24,435)</u>	<u>(24,028)</u>
Profit before tax					<u>1,071</u>	<u>1,009</u>
<i>Reportable segment results include:</i>						
Interest income	471	93	—	—	471	93
Finance costs	1,887	1,808	26	400	1,913	2,208
Depreciation on property, plant and equipment	3,982	4,038	542	584	4,524	4,622
Depreciation on right-of-use assets	3,239	4,634	722	1,238	3,961	5,872
Additions to property, plant and equipment	1,307	2,371	—	—	1,307	2,371
Additions to right-of-use assets	13,188	1,111	—	—	13,188	1,111
Provision for ECL on trade receivables and contract assets	<u>1,052</u>	<u>1,521</u>	<u>—</u>	<u>—</u>	<u>1,052</u>	<u>1,521</u>

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
SEGMENT ASSETS		
Foundation	614,430	328,396
Leasing	<u>6,154</u>	<u>17,603</u>
Total segment assets	620,584	345,999
Unallocated assets	<u>62,308</u>	<u>72,792</u>
Consolidated assets	<u><u>682,892</u></u>	<u><u>418,791</u></u>
SEGMENT LIABILITIES		
Foundation	491,270	222,650
Leasing	<u>3,088</u>	<u>4,514</u>
Total segment liabilities	494,358	227,164
Unallocated liabilities	<u>95,047</u>	<u>99,211</u>
Consolidated liabilities	<u><u>589,405</u></u>	<u><u>326,375</u></u>

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 2021 and 2020 and the Group's revenue from external customers during the years ended 31 March 2021 and 2020 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 2021 and 2020 is set out as below:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Foundation services		
Customer 1	145,081	134,579
Customer 2 (<i>note (i)</i>)	N/A	46,144
Customer 3 (<i>note (i)</i>)	N/A	45,728
Customer 4 (<i>note (ii)</i>)	190,121	N/A
Customer 5 (<i>note (ii)</i>)	237,984	N/A
Customer 6 (<i>note (ii)</i>)	205,157	N/A

Note:

- (i) These customers did not contribute over 10% of the total revenue of the Group for the year ended 31 March 2021.
- (ii) These customers did not contribute over 10% of the total revenue of the Group for the year ended 31 March 2020.

5. REVENUE

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Recognised over time within the scope of HKFRS 15		
Provision of foundation services	933,797	373,757
Revenue from other sources		
Leasing of machinery	—	1,146
	<u>933,797</u>	<u>374,903</u>

As at 31 March 2021, 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\$784,525,000 (2020: HK\$309,575,000). 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 months (2020: 12 to 24 months).

6 OTHER INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Government grant income (<i>note</i>)	5,819	—
Imputed interest income	5,962	2,981
Interest income	780	95
Sundry income	138	469
	<u>12,699</u>	<u>3,545</u>

Note: The amount represents the receipts from Employment Support Scheme provided by the Hong Kong government under which the conditions of the government grant were fulfilled during the year (2020: Nil).

7. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank borrowings	1,622	1,501
Interest on lease liabilities	339	721
Imputed interest expenses on other borrowings	5,962	5,869
	<u>7,923</u>	<u>8,091</u>
Less: Amounts attributable to contract works	(410)	(861)
	<u>7,513</u>	<u>7,230</u>

The weight average capitalisation rate on funds borrowed generally is at a rate of 3.31% per annum (2020: 5.28%).

8. INCOME TAX

Under the two-tiered Profits Tax regime, the first HK\$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered Profit Tax rate regime will continue to be taxed at a rate of 16.5%.

No provision for Hong Kong Profits Tax is required since the Group has sufficient tax losses brought forward to set off against the assessable profit for the years ended 31 March 2021 and 2020.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit before tax	<u>1,071</u>	<u>1,009</u>
Tax at the Hong Kong Profits Tax rate of 16.5% (2020: 16.5%)	177	166
Tax effect of income that is not taxable	(1,996)	(502)
Tax effect of expenses that are not deductible	3,053	2,116
Tax effect of utilisation of tax losses not previously recognised	(1,827)	(1,514)
Tax effect of temporary differences not recognised	351	(394)
Tax effect of previous tax losses recognised	(48)	(129)
Tax effect of tax losses not recognised	<u>290</u>	<u>257</u>
Income tax	<u>—</u>	<u>—</u>

9. PROFIT FOR THE YEAR

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

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Auditor's remuneration			
— Current		750	650
— Over-provision in prior years		(107)	(32)
Cost of construction materials	(a)	191,624	52,051
Depreciation on property, plant and equipment	(b)	4,579	4,622
Depreciation on right-of-use assets	(b)	5,478	6,745
Gain on disposals of property, plant and equipment, net		—	(324)
(Gain)/loss termination of leases		(2)	3
Written off of contract assets	(c)	4,693	4,567
Provision for ECL on trade receivables, other receivables and contract assets		2,142	1,521
Lease payments not included in the measurement of lease liabilities	(d)	<u>17,914</u>	<u>9,401</u>

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 2021 and 2020 amounted to approximately HK\$6,781,000 and HK\$7,966,000 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 2021 and 2020 amounted to approximately HK\$15,714,000 and HK\$6,224,000 respectively.

10. DIVIDENDS

The Board does not recommend the payment of a final dividend to the shareholders for the year ended 31 March 2021 (2020: Nil).

11. EARNINGS PER SHARE

(a) Basic earnings per share

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit for the purpose of calculating basic earnings per share	<u>1,071</u>	<u>1,009</u>
	2021 <i>'000</i>	2020 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>400,000</u>	<u>400,000</u>

(b) Diluted earnings per share

No diluted earnings per share to be presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 March 2021 and 2020.

12. TRADE RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	81,861	41,143
Less: Allowance for doubtful debts under ECL	<u>(237)</u>	<u>(45)</u>
	<u>81,624</u>	<u>41,098</u>

Notes:

- (a) The Group's trade receivables represent progress billings receivables from contract customers. The general credit terms of trade receivables were within 21 to 45 days (2020: 21 to 30 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 invoice date of progress billing, and net of allowance is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 to 30 days	76,108	38,152
31 to 60 days	—	2,857
Over 60 days	5,516	89
	81,624	41,098

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 under contract assets 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 2021, the aggregated carrying amount of trade receivables and retention receivables under contract assets or liabilities that have been transferred under factoring arrangements but have not been derecognised amounted to approximately HK\$62,605,000 (2020: HK\$44,289,000). The carrying amount of the factoring loans financed as at 31 March 2021 is approximately HK\$74,847,000 (2020: HK\$34,978,000).

13. CONTRACT ASSETS/(LIABILITIES)

Contract assets	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Arising from performance under construction contracts	309,034	207,707
Receivables from contract with customers within the scope of HKFRS 15, which are included in "Trade receivables"	81,535	41,009

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

The increase in contract assets in 2020 and 2021 was result of the increase in the provision of construction services at the end of each of the years.

The amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous period is approximately HK\$4,894,000 (2020: HK\$6,952,000), 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\$47,131,000 (2020: HK\$10,117,000).

Contract liabilities	2021 HK\$'000	2020 <i>HK\$'000</i>
Billings in advance of performance obligation		
— Construction contracts	<u>2,112</u>	<u>5,272</u>

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.

The decrease (2020: increase) in contract liabilities in 2021 was mainly due to the decrease (2020: increase) in advances received from customers in relation to the provision of construction services at the end of the reporting period.

Movements in contract liabilities:

	2021 HK\$'000	2020 <i>HK\$'000</i>
Balance as at 1 April	5,272	531
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	(5,272)	(531)
Increase in contract liabilities as a result of billing in advance of construction activities	<u>2,112</u>	<u>5,272</u>
Balance as at 31 March	<u>2,112</u>	<u>5,272</u>

None of billings in advance of performance received that is expected to be recognised as income after more than one year (2020: Nil).

14. TRADE AND RETENTION PAYABLES

	<i>Note</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Trade payables	<i>(a)</i>	334,205	128,298
Retention payables	<i>(b)</i>	<u>37,820</u>	<u>30,427</u>
		<u>372,025</u>	<u>158,725</u>

Notes:

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

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	107,488	44,448
31 to 60 days	53,103	19,842
61 to 90 days	46,418	16,862
Over 90 days	127,196	47,146
	<u>334,205</u>	<u>128,298</u>

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

As at 31 March 2021, the Group's trade payables of approximately HK\$42,598,000 (2020: Nil) are guaranteed by a director of the Group's subsidiary.

- (b) As at 31 March 2021, the amount of the Group's retention payables expected to be due after more than twelve months was approximately HK\$11,584,000 (2020: HK\$13,634,000).

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

15. CONTINGENT LIABILITIES

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

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees on performance bonds for construction contracts	<u>189,806</u>	<u>75,371</u>

As at 31 March 2021, the securities for the Group's performance bonds for construction contracts are as follows:

- (i) guarantees on performance bonds amounting to approximately HK\$183,894,000 (2020: HK\$69,459,000) are secured by (i) the Group's other receivables of HK\$82,171,000 (2020: HK\$2,936,000); (ii) a personal guarantee executed by a director of 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 (2020: HK\$5,912,000) is secured by (i) the Group's pledged bank deposits of approximately HK\$10,349,000 (2020: HK\$10,307,000); and (ii) the corporate guarantee executed by the Company.

- (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. During the year ended 31 March 2021, the Group made a security deposit into court and the Dispute is currently under legal proceeding up to the date of this announcement.

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.

16. CAPITAL COMMITMENTS

At the end of reporting period, the Group did not have any capital commitments (2020: Nil).

BUSINESS REVIEW

During the year ended 31 March 2021, 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 13 active projects as at 31 March 2020. As at 31 March 2021, 8 of these projects have been practically completed while the other 5 projects remain in progress.

During the year ended 31 March 2021, 4 new projects have been awarded to the Group and all of them remain in progress as at 31 March 2021. As such, there were a total of 9 projects in progress as at 31 March 2021.

FINANCIAL REVIEW

Revenue

The Group’s overall revenue increased by 149.1% from approximately HK\$374,903,000 during the year ended 31 March 2020 to approximately HK\$933,797,000 during the year ended 31 March 2021. The increase in the Group’s overall revenue was mainly attributable to 4 projects located in Kai Tak Development area were in full swing during the year ended 31 March 2021.

Gross Profit/Gross Profit Margin

The overall gross profit increased by 2.0% from approximately HK\$40,842,000 during the year ended 31 March 2020 to approximately HK\$41,653,000 during the year ended 31 March 2021. The overall gross profit margin decreased from approximately 10.9% during the year ended 31 March 2020 to approximately 4.5% during the year ended 31 March 2021 and such were mainly attributable to the combined effects of the followings:

- i. Gross profits generated from the contract works conducted by 4 projects located in Kai Tak Development area during the year ended 31 March 2021;
- ii. Unexpected additional costs incurred towards the completion stage of certain projects during the year ended 31 March 2021; and
- iii. Irrecoverable costs incurred for certain projects due to delay of site progress and the outbreak of the COVID-19 during the year ended 31 March 2021.

OTHER INCOME

The Group's other income increased from approximately HK\$3,545,000 during the year ended 31 March 2020 to approximately HK\$12,699,000 during the year ended 31 March 2021. Such increase was mainly attributable to:

- i. Increase in recognition of non-recurring imputed interest from approximately HK\$2,981,000 during the year ended 31 March 2020 to approximately HK\$5,962,000 during the year ended 31 March 2021 as a result of the extensions of the repayment period of the Unsecured Loan (as defined in section "DEBTS AND CHARGE ON ASSETS" below); and
- ii. Receipt and recognition of non-recurring government grants of approximately HK\$5,819,000 under the Employment Support Scheme launched by the HKSAR Government during the year ended 31 March 2021.

Administrative and other operating Expenses

The Group's administrative and other operating expenses increased by 26.0% from approximately HK\$34,627,000 during the year ended 31 March 2020 to approximately HK\$43,626,000 during the year ended 31 March 2021. Such increase was in line with the increase in business scale of the Group and was mainly attributable to:

- i. Increase in payments of general and project consulting, legal and professional fees from approximately HK\$4,256,000 during the year ended 31 March 2020 to approximately HK\$9,494,000 during the year ended 31 March 2021; and
- ii. Increase in payments of administrative employee benefits expenses from approximately HK\$14,921,000 during the year ended 31 March 2020 to approximately HK\$18,449,000 during the year ended 31 March 2021.

FINANCE COSTS

The Group's finance costs was approximately HK\$7,513,000 during the year ended 31 March 2021 which is comparable to the finance costs of approximately HK\$7,230,000 during the year ended 31 March 2020.

NET PROFIT

As a result of the abovementioned, during the year under review, the Group reported a net profit of approximately HK\$1,071,000 (2020: HK\$1,009,000).

DEBTS AND CHARGE ON ASSETS

As at 31 March 2021, the total debts of the Group, including bank borrowings, lease liabilities and other borrowings are approximately HK\$201,952,000 (2020: HK\$152,862,000).

As at 31 March 2021, the Group's banking facilities were secured by (i) the Group's aggregated trade receivables and retention receivables under contract assets or contract liabilities of approximately HK\$62,605,000 (2020: HK\$44,289,000); (ii) the Group's pledged bank deposits of approximately HK\$36,353,000 (2020: HK\$16,308,000); (iii) the Group's right-of-use assets and property, plant and equipment with total net carrying amounts of approximately HK\$21,591,000 (2020: HK\$34,829,000); (iv) the Group's deposit and prepayment for a life insurance policy of approximately HK\$9,274,000 (2020: HK\$9,003,000); (v) receivable rights of gross income for certain projects; (vi) a personal guarantee executed by a director of a subsidiary; and (vii) the corporate guarantee executed by the Company.

Besides, pursuant to the terms of the sales and purchase agreement entered into between New Grace Gain Limited ("New Grace Gain") and Blessing Well Enterprise Limited ("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.

During the year ended 31 March 2020, New Grace Gain and the Company entered into a supplemental agreement ("Agreement 1") 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.

During the year ended 31 March 2021, New Grace Gain and the Company further entered into second and third supplemental agreement ("Agreement 2" and "Agreement 3") to further extend the repayment period of the Unsecured Loan for aggregate 12 months, i.e. the repayment term of 36 months has been extended to 48 months.

Save as the extension of the repayment period under the Agreement 1, Agreement 2 and Agreement 3, 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 2021, the Group had pledged bank deposits, and bank and cash balances of approximately HK\$42,753,000 (2020: HK\$87,370,000). The gearing ratio of the Group as at 31 March 2021 (defined as the total borrowings divided by total equity) was approximately 216.0% (2020: 165.4%). As at 31 March 2021, the current ratio of the Group was approximately 1.2 (2020: 1.5).

During the year ended 31 March 2021, 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 of property, plant and equipment and right-of-use assets amounting to approximately HK\$1,307,000 and HK\$13,188,000 respectively, the Group did not have any other significant investments, material acquisitions or disposals during the year ended 31 March 2021.

There was no formal plan authorised by the Board for any significant investments, material acquisitions or disposals as at 31 March 2021 and up to the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

During the years ended 31 March 2021 and 2020, the Group commenced formal legal proceedings against the customer and the customer made a counter claimed against the Group in respect of a project completed in prior year. In May 2021, the Group has reached the final settlement with the customer and all outstanding monies have been settled in June 2021.

FINAL DIVIDEND

The Board does not recommend payment of a final dividend to the Shareholders for the year ended 31 March 2021 (2020: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2021, the Group had 170 employees (2020: 132 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 2021 were approximately HK\$70,935,000 (2020: HK\$52,736,000).

PROSPECTS

The outbreak of the COVID-19 (the "Epidemic") has created a challenging operating environment for the foundation industry since early 2020, including but not limited to supply chain disruptions, workforce shortages due to illness and preventative quarantines, work stoppages as a result of policies imposed by the Government of the HKSAR, etc. The Group will continue to actively devote its efforts to facilitate the prevention and control of further spreading of the Epidemic in its premises and construction sites and to ensure the health and safety of its employees.

It is believed that the uncertainty arising from the Epidemic, the intense competition in foundation industry and the price fluctuation of raw materials will affect the operational and financial performance of the Group in the short run. As at 31 March 2021, the Group had an outstanding contract on hand with value exceeding HK\$700,000,000 (2020: exceeding HK\$300,000,000) and hence the Group's revenue for the coming year is secured. The Group will keep close watch on the evolving situation from time to time and adopt different tendering strategies and foster long-term relationships with different quality customers so as to maintain the Group's competitiveness in the market.

Notwithstanding the above, as supported by the 2020 Policy Address of Hong Kong, land and housing are still the most important agendas. The Government of the HKSAR targets to identify additional land supply and to provide more housing in both the medium and the long term. The Group remains optimistic towards 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.

Apart from foundation services and leasing of machinery, the Group will continue to explore and identify 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 2021 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 the 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 continue to 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 internal audit department during the year ended 31 March 2021, 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 2021, 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 2021.

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 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 2021.

The Audit Committee held 2 committee meetings during the year ended 31 March 2021.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting (the “2021 AGM”) of the Company for the year ended 31 March 2021 be held on a date to be fixed by the Board, and a notice convening the 2021 AGM will be published and despatched to the Shareholders in due course in accordance with the Listing Rules.

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 2021 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 2021. 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 has been 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 2021 will be despatched to the Shareholders and published on the above websites in due course in accordance with the Listing Rules.

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, 30 June 2021

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