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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 2022

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 2022, together with the comparative figures for the corresponding year ended 31 March 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2022

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	5	751,767	933,797
Cost of sales and services rendered		<u>(722,019)</u>	<u>(892,144)</u>
Gross profit		29,748	41,653
Other income	6	8,084	12,699
Administrative and other operating expenses		(46,441)	(43,626)
Provision for expected credit loss (“ECL”) on trade receivables, other receivables and contract assets, net of reversal of impairment loss		<u>(910)</u>	<u>(2,142)</u>
(Loss)/profit from operations		(9,519)	8,584
Finance costs	7	<u>(8,825)</u>	<u>(7,513)</u>
(Loss)/profit before tax		(18,344)	1,071
Income tax expense	8	<u>(2)</u>	<u>–</u>
(Loss)/profit and total comprehensive income for the year attributable to owners of the Company	9	<u>(18,346)</u>	<u>1,071</u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share			
– Basic	11(a)	<u>(4.6)</u>	<u>0.3</u>
– Diluted	11(b)	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		41,282	42,158
Deposits and prepayments for life insurance policies		19,163	9,274
Right-of-use assets		11,451	19,521
		71,896	70,953
Current assets			
Inventories		20,364	6,024
Trade receivables	12	94,672	81,624
Contract assets	13	283,789	309,034
Prepayments, deposits and other receivables		61,016	172,504
Pledged bank deposits		68,385	36,353
Bank and cash balances		57,898	6,400
		586,124	611,939
Current liabilities			
Trade and retention payables	14	240,570	372,025
Contract liabilities	13	–	2,112
Accruals and other payables		60,560	13,316
Lease liabilities		7,441	9,976
Bank borrowings, secured		181,027	97,154
		489,598	494,583
Net current assets		96,526	117,356
Total assets less current liabilities		168,422	188,309
Non-current liabilities			
Lease liabilities		387	1,928
Other borrowing, unsecured		92,894	92,894
		93,281	94,822
NET ASSETS		75,141	93,487
Capital and reserves			
Share capital		4,000	4,000
Reserves		71,141	89,487
TOTAL EQUITY		75,141	93,487

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 and trading of electronic devices in the People's Republic of China ("PRC").

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with 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 to the consolidated financial statements 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 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 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phrase 2
Amendments to HKFRS 16	COVID-19 Related Rent Concession beyond 30 June 2021

Except as described below, the application of 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.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phrase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“IBOR reform”).

The amendments do not have an impact on these consolidated financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

Amendment to HKFRS 16, COVID-19-Related Rent Concessions Beyond 30 June 2021

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

With the extended time limit, certain rent concessions that were previously ineligible for the practical expedient because of the original time limit, become eligible. Accordingly, these rent concessions, which were previously accounted for as lease modifications, are now accounted for as negative variable lease payments, and are recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 April 2021.

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

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 April 2021. These new and revised HKFRSs include the following which may be relevant to the Group.

Amendments to HKFRS 3	Business Combination – Reference to the Conceptual Framework ²
Amendments to HKAS 16	Property Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37 Annual Improvements	Onerous Contracts – Cost of Fulfilling a Contract ² Annual Improvements to HKFRSs 2018-2020 Cycle ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Presentation of Financial Statements and Making Materiality Judgements – Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates ¹
Amendments to HKAS 12	Income Taxes – 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

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, being the directors of the Company, in order to allocate resources to the segment and to assess its performance.

The directors consider that the Group manages its businesses by divisions, which are organised into business units based on their services provided, and has identified “Foundation – provision of foundation services” as the reportable operating segment.

In addition to the above segment, the Group has other operating segments which mainly include leasing of machinery and trading of electronic devices. These operating segments individually do not meet any of the quantitative thresholds of determining reportable segments. Accordingly, these operating segments are grouped as “Others”.

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		Others		Total	
	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue	707,392	933,797	44,375	–	751,767	933,797
Reportable segment results	14,143	26,921	(1,906)	(1,415)	12,237	25,506
Central administrative expenses and directors’ emoluments					(30,581)	(24,435)
(Loss)/profit before tax					(18,344)	1,071
<i>Reportable segment results include:</i>						
Interest income	776	471	13	–	789	471
Finance costs	4,390	1,887	–	26	4,390	1,913
Depreciation on property, plant and equipment	4,209	3,982	1,871	597	6,080	4,579
Depreciation on right-of-use assets	3,337	3,239	–	722	3,337	3,961
Additions to property, plant and equipment	1,767	1,307	–	–	1,767	1,307
Additions to right-of-use assets	1,517	13,188	–	–	1,517	13,188
Provision for ECL on trade receivables and contract assets	2,000	1,052	–	–	2,000	1,052
Impairment of property, plant and equipment	2,436	–	–	–	2,436	–
Written off of contract assets	4,744	4,693	–	–	4,744	4,693

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

Segment results represent (loss)/profit 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
SEGMENT ASSETS		
Foundation	563,890	614,430
Others	71,918	6,154
	<hr/>	<hr/>
Total segment assets	635,808	620,584
Unallocated assets	22,212	62,308
	<hr/>	<hr/>
Consolidated assets	658,020	682,892
	<hr/> <hr/>	<hr/> <hr/>
SEGMENT LIABILITIES		
Foundation	441,623	491,270
Others	5,732	3,088
	<hr/>	<hr/>
Total segment liabilities	447,355	494,358
Unallocated liabilities	135,524	95,047
	<hr/>	<hr/>
Consolidated liabilities	582,879	589,405
	<hr/> <hr/>	<hr/> <hr/>

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 of the Group as at 31 March 2022 and 2021 are located in Hong Kong. While the geographical information of the Group's revenue from external customers for the years ended 31 March 2022 and 2021, based on locations of customers, are set out below:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong	708,564	933,797
PRC	43,203	—
	<hr/>	<hr/>
Total	751,767	933,797
	<hr/> <hr/>	<hr/> <hr/>

Revenue from major customers

The Group's customer base for whom transactions have exceeded 10% of its revenue during the years ended 31 March 2022 and 2021 is set out as below:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Foundation services		
Customer 1 (<i>note</i>)	N/A	145,081
Customer 2	178,572	190,121
Customer 3	138,020	237,984
Customer 4	193,551	205,157
	<u>193,551</u>	<u>205,157</u>

Note: This customer did not contribute over 10% of the total revenue of the Group for the year ended 31 March 2022.

5. REVENUE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Recognised over time within the scope of HKFRS 15		
Provision of foundation services	707,392	933,797
Recognised at point in time within the scope of HKFRS 15		
Trading of electronic devices	43,203	–
Revenue from other sources		
Leasing of machinery	1,172	–
	<u>751,767</u>	<u>933,797</u>

As at 31 March 2022, 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\$262,821,000 (2021: approximately HK\$784,525,000). 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 (2021: 12 months).

6. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Government grant income (<i>note</i>)	212	5,819
Imputed interest income	5,962	5,962
Interest income	789	780
Sundry income	<u>1,121</u>	<u>138</u>
	<u>8,084</u>	<u>12,699</u>

Note: The amount represents the receipts from Construction Innovation and Technology Fund (2021: Employment Support Scheme) provided by the Hong Kong Government under which the conditions of the government grant were fulfilled during the year.

7. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank borrowings	3,823	1,622
Interest on lease liabilities	572	339
Imputed interest expenses on other borrowings	<u>5,962</u>	<u>5,962</u>
	10,357	7,923
Less: Amounts attributable to contract works	<u>(1,532)</u>	<u>(410)</u>
	<u>8,825</u>	<u>7,513</u>

8. INCOME TAX EXPENSE

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 one of taxed at 8.25% (2021: 8.25%), and profits above that amount will be subject to the tax rate of 16.5% (2021: 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% (2021: 16.5%).

No provision for Hong Kong Profit Tax is required since the Group has no assessable profits for the year ended 31 March 2022 (2021: sufficient tax losses brought forward to set off against the assessable profit).

PRC Enterprise Income Tax has been provided at a rate of 25% (2021: 25%).

The reconciliation of the income tax expense applicable to (loss)/profit before tax at the statutory tax rates is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss)/profit before tax	<u>(18,344)</u>	<u>1,071</u>
Tax at the Hong Kong Profits Tax rate of 16.5% (2021: 16.5%)	(3,027)	177
Tax effect of income that is not taxable	(1,023)	(1,996)
Tax effect of difference in tax rate of a subsidiary	(12)	–
Tax effect of expenses that are not deductible	1,934	3,053
Tax effect of utilisation of tax losses not previously recognised	–	(1,827)
Tax effect of temporary differences not recognised	1,013	351
Tax effect of previous tax losses recognised	–	(48)
Tax effect of tax losses not recognised	<u>1,117</u>	<u>290</u>
Income tax expense	<u><u>2</u></u>	<u><u>–</u></u>

9. (LOSS)/PROFIT FOR THE YEAR

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

	<i>Note</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Auditor's remuneration			
– Current		750	750
– Over-provision in prior years		<u>–</u>	<u>(107)</u>
		750	643
Cost of construction materials	(a)	242,756	191,624
Cost of sales	(a)	43,092	–
Depreciation on property, plant and equipment	(b)	6,080	4,579
Depreciation on right-of-use assets	(b)	3,714	5,478
Gain on termination of leases		–	(2)
Written off of contract assets	(c)	4,744	4,693
Provision for ECL on trade receivables, contract assets and other receivables, net of reversal of impairment loss		910	2,142
Impairment of property, plant and equipment	(c)	2,436	–
Lease payments not included in the measurement of lease liabilities	(d)	15,922	17,914
		<u>15,922</u>	<u>17,914</u>

Notes:

- (a) The amounts included in cost of sales and services rendered.
- (b) The amounts included in cost of sales and services rendered for the years ended 31 March 2022 and 2021 amounted to approximately HK\$8,232,000 and HK\$6,781,000 respectively.
- (c) The amounts included in administrative and other operating expenses.
- (d) The amounts included in cost of sales and services rendered for the years ended 31 March 2022 and 2021 amounted to approximately HK\$12,812,000 and HK\$15,714,000 respectively.

10. DIVIDENDS

The Board does not recommend the payment of any dividend to the shareholders for the year ended 31 March 2022 (2021: Nil).

11. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss)/profit for the purpose of calculating basic (loss)/earnings per share	<u>(18,346)</u>	<u>1,071</u>
	2022 '000	2021 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	<u>400,000</u>	<u>400,000</u>

(b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share to be presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 March 2022 and 2021.

12. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	95,089	81,861
Less: Allowance for doubtful debts under ECL	<u>(417)</u>	<u>(237)</u>
	<u>94,672</u>	<u>81,624</u>

Notes:

- (a) The Group's trade receivables represent progress billings receivables from contract customers. The general credit terms of trade receivables were within 14 to 45 days (2021: 30 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 invoice date of progress billing, and net of allowance is as follows:

	2022	2021
	HK\$'000	HK\$'000
0 to 30 days	89,315	76,106
31 to 60 days	–	–
Over 60 days	5,357	5,518
	<u>94,672</u>	<u>81,624</u>

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

- (b) As at 31 March 2022, approximately HK\$82,115,000 (2021: HK\$19,730,000) of trade receivables were pledged to banks to secure bank borrowings.

13. CONTRACT ASSETS/(LIABILITIES)

Contract assets	2022	2021
	HK\$'000	HK\$'000
Arising from performance under construction contracts	288,372	311,797
Less: Allowance for contract asset under ECL	(4,583)	(2,763)
	<u>283,789</u>	<u>309,034</u>
Receivables from contract with customers within the scope of HKFRS 15, which are included in "Trade receivables"	<u>93,417</u>	<u>81,535</u>

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 decrease (2021: increase) in contract assets was result of the certain construction projects completed and finalised during the year (2021: increase in provision of construction services).

The amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous period is approximately HK\$8,097,000 (2021: HK\$4,894,000), 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\$22,748,000 (2021: HK\$47,131,000).

As at 31 March 2022, approximately HK\$70,668,000 (2021: HK\$42,875,000) of retention receivables under contract assets or liabilities were pledged to banks to secure bank borrowings.

Contract liabilities	2022 HK\$'000	2021 <i>HK\$'000</i>
Billings in advance of performance obligation		
– Construction contracts	–	2,112
	<u> </u>	<u> </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 (2021: decrease) in contract liabilities in 2022 was mainly due to the decrease (2021: decrease) in advances received from customers in relation to the provision of construction project at the end of the reporting period.

Movements in contract liabilities:

	2022 HK\$'000	2021 <i>HK\$'000</i>
Balance at beginning of year	2,112	5,272
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	(2,112)	(5,272)
Increase in contract liabilities as a result of billing in advance of construction activities	–	2,112
	<u> </u>	<u> </u>
Balance at end of year	<u> </u>	<u> </u>

At the end of reporting period, none of billings in advance of performance received that is expected to be recognised as income after more than one year (2021: Nil).

14. TRADE AND RETENTION PAYABLES

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	(a)	200,237	334,205
Retention payables	(b)	40,333	37,820
		240,570	372,025

Notes:

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 30 days	107,798	107,488
31 to 60 days	31,286	53,103
61 to 90 days	46,531	46,418
Over 90 days	14,622	127,196
	200,237	334,205

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

As at 31 March 2022, the Group's trade payables of approximately HK\$17,192,000 (2021: HK\$42,598,000) are guaranteed by a director of a subsidiary of the Company.

- (b) As at 31 March 2022, the amount of the Group's retention payables expected to be due after more than twelve months was approximately HK\$12,476,000 (2021: HK\$11,584,000).

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

15. PERFORMANCE BONDS

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees on performance bonds for construction contracts	<u>83,248</u>	<u>189,806</u>

As at 31 March 2022, the securities for the Group's performance bonds for construction contracts are as follows:

- (i) guarantees on performance bonds amounting to approximately HK\$77,336,000 (2021: HK\$183,894,000) are secured by (i) the Group's other receivables of HK\$48,216,000 (2021: HK\$82,171,000); (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 (2021: HK\$5,912,000) is secured by (i) the Group's pledged bank deposits of approximately HK\$10,355,000 (2021: HK\$10,349,000); (ii) a personal guarantee executed by a director of a subsidiary of the Company (2021: Nil); and (iii) the corporate guarantee executed by the Company.

16. CONTINGENT LIABILITIES

In May 2015, a subcontractor claimed against the Group for certain construction works (the "Dispute"). The total amount of claim made by the subcontractor is approximately HK\$20,329,000 and the Group had made a security deposit into court in November 2020.

Pursuant to the deed of indemnity executed by the then controlling and substantial shareholder of the Company, New Grace Gain and its ultimate beneficial owners, Mr. Yeung Sau Ming, Boris, Mr. Lau Tai Wah, Gilbert and Mr. Yue Suen Leung, in favour of the 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.

In September 2021, the Group settled the Dispute by releasing the court security deposit so deposited into the court to the subcontractor. Such payment has been reimbursed and borne by New Grace Gain pursuant to the deed of indemnity as mentioned above.

17. CAPITAL COMMITMENTS

At the end of reporting period, the Group did not have any capital commitments (2021: Nil).

BUSINESS REVIEW

During the year ended 31 March 2022, the Group was principally engaged in the provision of foundation services (the “Foundation”) and the leasing of machinery (the “Leasing”) in Hong Kong and trading of electronic devices in the PRC.

FOUNDATION SERVICES

There were 9 active projects as at 31 March 2021. As at 31 March 2022, 4 of these projects have been practically completed while the other 5 projects remain in progress.

During the year ended 31 March 2022, 3 new projects have been awarded to the Group and 1 of these projects remains in progress as at 31 March 2022. As such, there were a total of 7 projects in progress as at 31 March 2022.

TRADING OF ELECTRONIC DEVICES

In order to diversify the income stream and business risks, the Group commenced to engage in trading of electronic devices during the year ended 31 March 2022.

FINANCIAL REVIEW

REVENUE

The Group’s overall revenue decreased by 19.5% from approximately HK\$933,797,000 during the year ended 31 March 2021 to approximately HK\$751,767,000 during the year ended 31 March 2022. The decrease in the Group’s overall revenue was mainly attributable to i) delay of works schedules of certain projects due to the outbreak of the COVID-19 during the year ended 31 March 2022; and ii) completion of certain projects located in the Kai Tak Development area during the year ended 31 March 2022.

GROSS PROFIT/GROSS PROFIT MARGIN

The overall gross profit decreased by 28.6% from approximately HK\$41,653,000 during the year ended 31 March 2021 to approximately HK\$29,748,000 during the year ended 31 March 2022. The overall gross profit margin decreased from approximately 4.5% during the year ended 31 March 2021 to approximately 4.0% during the year ended 31 March 2022 and such were mainly attributable to the combined effects of the followings:

- i. increase in construction costs during the completion stage of certain projects during the year ended 31 March 2022; and
- ii. unexpected increase in project costs due to unexpected changes in on-site arrangements and works schedules of certain projects because of the outbreak of the COVID-19 during the year ended 31 March 2022.

OTHER INCOME

The Group's other income decreased from approximately HK\$12,699,000 during the year ended 31 March 2021 to approximately HK\$8,084,000 during the year ended 31 March 2022. Such decrease was mainly attributable to the fact that the Group received a non-recurring government grant of approximately HK\$5,819,000 under the Employment Support Scheme launched by the Hong Kong Government during the year ended 31 March 2021 but no such income has been received during the current year.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

The Group's administrative and other operating expenses increased by 6.5% from approximately HK\$43,626,000 during the year ended 31 March 2021 to approximately HK\$46,441,000 during the year ended 31 March 2022. Such increase was mainly attributable to the increase in payments of administrative employee benefits expenses of approximately HK\$18,449,000 during the year ended 31 March 2021 to approximately HK\$20,946,000 during the year ended 31 March 2022.

FINANCE COSTS

The Group's finance costs increased from approximately HK\$7,513,000 during the year ended 31 March 2021 to approximately HK\$8,825,000 during the year ended 31 March 2022. Such increase was mainly attributable to the increase in interests payment to banks from approximately HK\$1,271,000 during the year ended 31 March 2021 to approximately HK\$2,451,000 during the year ended 31 March 2022.

NET (LOSS)/PROFIT

As a result of the abovementioned, the Group reported a net loss of approximately HK\$18,346,000 (2021: net profit of approximately HK\$1,071,000) during the year ended 31 March 2022.

DEBTS AND CHARGE ON ASSETS

As at 31 March 2022, the total debts of the Group, including bank borrowings, lease liabilities and other borrowings is approximately HK\$281,749,000 (2021: approximately HK\$201,952,000).

As at 31 March 2022, 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\$152,783,000 (2021: approximately HK\$62,605,000); (ii) the Group's pledged bank deposits of approximately HK\$68,385,000 (2021: approximately HK\$36,353,000); (iii) the Group's right-of-use assets and property, plant and equipment with total net carrying amounts of approximately HK\$17,249,000 (2021: approximately HK\$21,591,000); (iv) the Group's deposits and prepayments for life insurance policies of approximately HK\$19,163,000 (2021: approximately HK\$9,274,000); (v) receivable rights of gross income from certain projects; (vi) a personal guarantee executed by a director of a subsidiary of the Company; and (vii) the corporate guarantees executed by the Company and the subsidiaries of the Company.

As at 31 March 2022, the guarantees on performance bonds amounting to approximately HK\$77,336,000 (2021: HK\$183,894,000) are secured by (i) the Group's other receivables of HK\$48,216,000 (2021: HK\$82,171,000); (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.

As at 31 March 2022, the guarantees on a performance bond amounting to approximately HK\$5,912,000 (2021: HK\$5,912,000) is secured by (i) the Group's pledged bank deposits of approximately HK\$10,355,000 (2021: HK\$10,349,000); (ii) a personnel guarantee executed by a director of a subsidiary of the Company; and (iii) 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.

Up to 31 March 2021, New Grace Gain and the Company have entered into 3 supplemental agreements ("Agreements") to extend the repayment period of the Unsecured Loan for a total 18 months, i.e. the repayment term of 30 months has been extended to 48 months.

During the year ended 31 March 2022, New Grace Gain and the Company have further entered into a fourth and fifth supplemental agreement ("Agreement 4" and "Agreement 5") to further extend the repayment period for an aggregate of 12 months, i.e. the repayment term of 48 months has been extended to 60 months.

Save as the extension of the repayment period under the Agreements, Agreement 4 and Agreement 5, 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 2022, the Group had pledged bank deposits, and bank and cash balances of approximately HK\$126,283,000 (2021: approximately HK\$42,753,000). The gearing ratio of the Group as at 31 March 2022 (defined as the total borrowings divided by total equity) was approximately 375.0% (2021: approximately 216.0%). As at 31 March 2022, the current ratio of the Group was approximately 1.2 (2021: approximately 1.2).

During the year ended 31 March 2022, 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 life insurance policies and Renminbi (“RMB”) denominated 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.

As at 31 March 2022, if Hong Kong dollar had strengthened 5 per cent against the RMB with all other variables held constant, consolidated loss after tax for the year ended 31 March 2022 would have been approximately HK\$2,504,000 (2021: Nil) higher, arising mainly as a result of the foreign exchange loss on bank balances denominated in RMB. If Hong Kong Dollar had weakened 5 per cent against RMB with all other variables held constant, the consolidated loss after tax for the year would have been approximately HK\$2,504,000 (2021: Nil) lower, arising mainly as a result of the foreign exchange gain on bank balances denominated in RMB.

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

Save as additions of property, plant and equipment and right-of-use assets amounting to approximately HK\$1,767,000 and HK\$1,517,000 respectively, the Group did not have any other significant investments, material acquisitions or disposals during the year ended 31 March 2022.

There was no formal plan authorised by the Board for any significant investments, material acquisitions or disposals as at 31 March 2022 and up to the date of this announcement.

EVENT AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in the second half year of 2021, a series of precautionary and strict control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results at the date on which these financial statements are authorised for issue.

DIVIDEND

The Board does not recommend payment of any dividend to the Shareholders for the year ended 31 March 2022 (2021: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2022, the Group had 160 employees (2021: 170 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 2022 were approximately HK\$69,290,000 (2021: HK\$70,935,000).

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 HKSAR Government, etc. These situations were further exacerbated by the fifth wave of the Epidemic during the year ended 31 March 2022. The Group will 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 the foundation industry, price fluctuation of raw materials, the price strategy of subcontractors and labour costs will affect the operational and financial performance of the Group in the short run. 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 2021 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 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 abovementioned services, 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.

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

CORPORATE GOVERNANCE

Save as disclosed below, during the year ended 31 March 2022 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 C.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 D.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 2022, 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 2022, 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 2022.

AUDIT COMMITTEE

The Audit Committee is currently made up of three Independent Non-executive Directors, including Mr. Liu Xin (chairman of the Audit Committee), Mr. Feng Zhidong and Professor Lu Haitian. All members of the Audit Committee 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 2022.

The Audit Committee held 2 committee meetings during the year ended 31 March 2022.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting (the “2022 AGM”) of the Company for the year ended 31 March 2022 be held on a date to be fixed by the Board, and a notice convening the 2022 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, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 March 2022 as set out in the preliminary announcement have been agreed by the Group’s auditors, McMillan Woods (Hong Kong) CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by McMillan Woods (Hong Kong) CPA Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by McMillan Woods (Hong Kong) CPA Limited on the preliminary 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 2022 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 2022

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 Mr. Feng Zhidong, Professor Lu Haitian and Mr. Liu Xin.