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SH GROUP (HOLDINGS) LIMITED

順興集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1637)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2019**

FINANCIAL HIGHLIGHTS

(for the year ended 31 March 2019)

- Revenue was approximately HK\$396.3 million (2018: HK\$367.9 million)
- Gross profit was approximately HK\$47.6 million (2018: HK\$62.3 million)
- Profit for the year attributable to owners of the Company was approximately HK\$22.7 million (2018: HK\$35.6 million)
- Basic earnings per share was approximately HK5.7 cents per share (2018: HK8.9 cents per share)
- Proposed final dividend is HK1.4 cents per share (2018: HK2.2 cents per share)

ANNUAL RESULTS

The board (the “Board”) of directors (the “Directors”) of SH Group (Holdings) Limited (the “Company”) is pleased to present the consolidated results of the Company and its subsidiaries (collectively as the “Group”) for the year ended 31 March 2019 (the “Year” or “FY2019”), together with the comparative figures for the year ended 31 March 2018 (“Last Year” or “FY2018”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

		For the year ended 31 March	
		2019	2018
	Notes	HK\$'000	HK\$'000
Revenue	3	396,348	367,919
Direct costs		<u>(348,704)</u>	<u>(305,588)</u>
Gross profit		47,644	62,331
Other income		1,324	657
Other gain		979	–
Impairment loss allowance of trade receivables and contract assets		(2,811)	–
Administrative expenses		(19,463)	(19,400)
Finance costs		<u>(396)</u>	<u>(410)</u>
Profit before taxation		27,277	43,178
Income tax expense	4	<u>(4,580)</u>	<u>(7,592)</u>
Profit and total comprehensive income for the year		<u>22,697</u>	<u>35,586</u>
Earnings per share			
— Basic (HK cents)	5	<u>5.7</u>	<u>8.9</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

		As at 31 March	
		2019	2018
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property and equipment		21,665	22,121
Deposits		2,654	2,036
Debt instrument at amortised cost		2,155	–
Financial assets at fair value through profit or loss		10,434	–
Pledged bank deposits		–	31,112
Deferred tax assets		232	13
		<u>37,140</u>	<u>55,282</u>
Current assets			
Trade receivables	7	56,155	23,172
Other receivables, deposits and prepayments		3,685	38,954
Contract assets	8	143,980	–
Amounts due from customers for contract work		–	39,217
Tax recoverable		3,723	–
Short term bank deposits		28,000	–
Bank balances and cash		71,315	158,911
		<u>306,858</u>	<u>260,254</u>
Current liabilities			
Trade and bills payables	9	36,683	17,825
Other payables and accrued charges		49,764	38,992
Contract liabilities	8	11,071	–
Amounts due to customers for contract work		–	16,406
Tax payable		–	1,934
Bank borrowings		9,164	12,057
		<u>106,682</u>	<u>87,214</u>
Net current assets		<u>200,176</u>	<u>173,040</u>
Total assets less current liabilities		<u>237,316</u>	<u>228,322</u>
Non-current liability			
Provisions		374	280
Net assets		<u>236,942</u>	<u>228,042</u>
Capital and reserves			
Share capital		4,000	4,000
Reserves		232,942	224,042
Equity attributable to owners of the Company		<u>236,942</u>	<u>228,042</u>

Notes:

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 9 May 2016. The address of the Company's registered office and the principal place of business in Hong Kong are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Units 603–606, 6/F., Tower I, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Kowloon, Hong Kong, respectively. Its immediate and ultimate holding company is Prosperously Legend Limited, which was incorporated in the British Virgin Islands and wholly owned by Mr. Yu Cheung Choy ("Mr. Yu"), who is also the chairman of the Board and executive Director. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited on 3 January 2017.

The Group is principally engaged in providing electrical and mechanical engineering ("E&M engineering") services in Hong Kong.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments and an interpretation to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the amendments and an interpretation to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 *Revenue from Contracts with Customers* and the related amendments for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 April 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Supply, installation and maintenance of mechanical ventilation and air-conditioning system (“MVAC system”)
- Supply, installation and maintenance of low voltage electrical system

Summary of effects arising from initial application of HKFRS 15

The following table summarises the impact of transition to HKFRS 15 on retained profits at 1 April 2018.

	Impact of adopting HKFRS 15 at 1 April 2018 HK\$'000
Retained profits	
Engineering services contracts recognised over time	(5,985)
Tax effects	988
	<hr/>
Impact at 1 April 2018	<u><u>(4,997)</u></u>

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 April 2018. Line items that were not affected by the changes have not been included.

	<i>Notes</i>	Carrying amounts previously reported at 31 March 2018 HK\$'000	Reclassification HK\$'000	Remeasurement HK\$'000	Carrying amounts under HKFRS 15 at 1 April 2018* HK\$'000
Current assets					
Trade receivables	(b)	23,172	(2,467)	—	20,705
Other receivables, deposits and prepayments	(c)	38,954	(36,968)	—	1,986
Contract assets	(a),(c),(d)	—	76,185	4,098	80,283
Amounts due from customers for contract work	(a)	39,217	(39,217)	—	—
Current liabilities					
Other payables and accrued charges	(b)	38,992	(2,596)	—	36,396
Contract liabilities	(b),(d)	—	16,535	10,083	26,618
Amounts due to customers for contract work	(b)	16,406	(16,406)	—	—
Tax payable	(d)	1,934	—	(988)	946
Capital and reserves					
Reserves	(d)	224,042	—	(4,997)	219,045
		<u><u>224,042</u></u>	<u><u>—</u></u>	<u><u>(4,997)</u></u>	<u><u>219,045</u></u>

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Notes:

- (a) At 1 April 2018, HK\$39,217,000 of amounts due from customers for contract work were reclassified to contract assets.
- (b) At 1 April 2018, HK\$13,939,000 of amounts due to customers for contract work and HK\$2,596,000 of other payables and accrued charges were reclassified to contract liabilities. At 1 April 2018, HK\$2,467,000 of trade receivables were eliminated against amounts due to customers for contract work under HKFRS 15.
- (c) At 1 April 2018, retention receivables of HK\$36,968,000 arising from the construction contracts are conditional on the satisfaction of the quality of construction work performed by the Group over a certain period as stipulated in the contracts, and such balance was reclassified from other receivables, deposits and prepayments to contract assets.
- (d) In order to faithfully represent the depiction of the Group's performance in transferring control of good or services promised to its customer, the Group would adopt input method to measure its progress by reference to the actual costs incurred relative to the total expected costs upon initial application of HKFRS 15 on 1 April 2018. HK\$4,997,000 was adjusted to opening retained profits, with the corresponding adjustments of HK\$4,098,000 and HK\$10,083,000 to contract assets and contract liabilities, respectively and decrease in tax payable by HK\$988,000 as a result of these adjustments. Previously, under HKAS 18, the Group's revenue from engineering service contracts is recognised based on the stage of completion at the end of each reporting period determined with reference to surveys of work performed to date relative to the total contract revenue as the directors of the Company considered such method measured reliably the engineering services performed.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 March 2019, its consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	<i>Notes</i>	As reported <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Amounts without application of HKFRS 15 <i>HK\$'000</i>
Current assets				
Trade receivables	(b)	56,155 [#]	2,260	58,415
Other receivables, deposits and prepayments	(b)	3,685	47,237	50,922
Contract assets	(a), (b)	143,980 [#]	(143,980)	—
Amounts due from customers for contract work	(a), (b)	—	106,570	106,570
Tax recoverable	(a), (b)	3,723	24	3,747
Current liabilities				
Other payables and accrued charges	(b)	49,764	5,471	55,235
Contract liabilities	(a), (b)	11,071	(11,071)	—
Amounts due to customers for contract work	(a), (b)	—	17,833	17,833
Capital and reserves				
Reserves	(a), (b)	<u>232,942</u>	<u>(122)</u>	<u>232,820</u>

Impact on the consolidated statement of profit or loss and other comprehensive income

	<i>Note</i>	As reported <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Amounts without application of HKFRS 15 <i>HK\$'000</i>
Revenue	(a)	396,348	(24,002)	372,346
Direct costs	(a)	(348,704)	17,871	(330,833)
Profit before taxation	(a)	27,277 [#]	(6,131)	21,146
Income tax expense	(a)	(4,580)	1,012	(3,568)
Profit for the year	(a)	<u>22,697[#]</u>	<u>(5,119)</u>	<u>17,578</u>

Impact on the consolidated statement of cash flows

	<i>Notes</i>	As reported <i>HK\$'000</i>	Adjustments* <i>HK\$'000</i>	Amounts without application of HKFRS 15 <i>HK\$'000</i>
OPERATING ACTIVITIES				
Profit before taxation	<i>(a)</i>	27,277	(6,131)	21,146
Increase in trade receivables	<i>(b)</i>	(35,817) [#]	207	(35,610)
Increase in other receivables, deposits and prepayments	<i>(b)</i>	(1,663)	(10,269)	(11,932)
Increase in contract assets	<i>(a), (b)</i>	(66,141) [#]	66,141	—
Change in amounts due from/to customers for contract work, net	<i>(a), (b)</i>	—	(68,370)	(68,370)
Increase in other payables and accrued charges	<i>(b)</i>	13,368	2,875	16,243
Decrease in contract liabilities	<i>(a), (b)</i>	(15,547)	15,547	—

* The amounts in this column exclude the corresponding effect from the application of HKFRS 9 as at 31 March 2019.

The amounts include the adjustment of impairment loss allowance of trade receivables and contract assets of HK\$367,000 and HK\$2,444,000 respectively upon the application of HKFRS 9.

Notes:

- (a) The adjustments are arising from the different bases of measuring the stage of completion at the end of the reporting period under HKAS 18 and HKFRS 15.
- (b) Without application of HKFRS 15, the contract assets under HKFRS 15 will be reclassified as amounts due from customers for contract work and other receivables, deposits and prepayments (for retention receivables) under HKAS 18, and the contract liabilities under HKFRS 15 will be reclassified as amounts due to customers for contract work and other payables and accrued charges under HKAS 18. The trade receivables will be reinstated with amounts due to customers for contract work for HKAS 18.

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15. The measurement categories for all financial assets and financial liabilities of the Group as at 1 April 2018 remain the same upon the application of HKFRS 9.

As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and considered the application of ECL model has no material impact to the financial position of the Group as at 1 April 2018.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied any new and amendments and an interpretation to HKFRSs that have been issued but are not yet effective for the current accounting period.

3. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the fair value of amounts received or receivable from the engineering service contracts by the Group to external customers. The Group's revenue is solely derived from E&M engineering services with the focus on the supply, installation and maintenance of MVAC system and low voltage electrical system in Hong Kong during the years ended 31 March 2019 and 2018.

Disaggregation of revenue

	For the year ended 31 March 2019 HK\$'000
Type of services (revenue recognised over time)	
– Supply, installation and maintenance of MVAC system	315,233
– Supply, installation and maintenance of low voltage electrical system	81,115
	<u>396,348</u>

The revenue recognised for the current year is mainly from private sector projects in Hong Kong.

Segment information

For the purpose of resources allocation and performance assessment, the chief operating decision maker (that is, Mr. Yu and Mr. Lau Man Ching (“Mr. Lau”), who is the Chief Executive Officer and executive Director of the Company) reviews the overall results and financial position of the Group as a whole. Accordingly, the Group has only one single operating segment and no further discrete financial information nor analysis of this single segment is presented.

Geographical information

No geographical segment information is presented as the Group's revenue are all derived from Hong Kong based on the location of services delivered and the Group's property and equipment amounting to HK\$21,665,000 as at 31 March 2019 (2018: HK\$22,121,000) are all located in Hong Kong by physical location of assets.

Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue during the years is as follows:

	For the year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Customer A	79,091	53,024
Customer B	75,490	58,626
Customer C	60,654	N/A*
Customer D	N/A*	85,549
Customer E	N/A*	69,732

* Revenue from the relevant customer was less than 10% of the Group's total revenue for the respective year.

4. INCOME TAX EXPENSE

	For the year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Hong Kong Profits Tax:		
Current tax		
– Provision for the year	4,765	7,602
– Under (over)-provision in prior years	34	(24)
	4,799	7,578
Deferred taxation	(219)	14
	4,580	7,592

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong Profits Tax for the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

5. EARNINGS PER SHARE

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

	For the year ended 31 March	
	2019	2018
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company) (HK\$'000)	<u>22,697</u>	<u>35,586</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>400,000,000</u>	<u>400,000,000</u>

No diluted earnings per share for the years ended 31 March 2019 and 2018 was presented as there was no dilutive potential ordinary share in issue for both years.

6. DIVIDENDS

During the year ended 31 March 2019, a final dividend in respect of the year ended 31 March 2018 of HK2.2 cents per ordinary share (HK\$8.8 million in aggregate) was declared and paid to the shareholders of the Company. Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2019 of HK1.4 cents per ordinary share (HK\$5.6 million in aggregate) has been proposed by the Directors and is subject to approval by the Shareholders at the forthcoming annual general meeting.

7. TRADE RECEIVABLES

	As at 31 March	
	2019	2018
	HK\$'000	HK\$'000
Trade receivables	56,522	23,172
Less: Impairment loss allowance	<u>(367)</u>	<u>–</u>
Total trade receivables	<u>56,155</u>	<u>23,172</u>

The Group grants credit terms of 30 days to its customers from the date of invoices on progress billings of contract works. An aged analysis of the trade receivables net of impairment loss allowance presented based on the invoice date at the end of each reporting period is as follows:

	As at 31 March	
	2019	2018
	HK\$'000	HK\$'000
0 – 30 days	41,833	16,103
31 – 60 days	10,498	4,434
61 – 90 days	1,708	555
Over 90 days	<u>2,116</u>	<u>2,080</u>
	<u>56,155</u>	<u>23,172</u>

8. CONTRACT ASSETS AND CONTRACT LIABILITIES

	As at 31 March 2019 HK\$'000	1 April 2018* HK\$'000
Contract assets	146,424	80,283
Less: Impairment loss allowance	<u>(2,444)</u>	<u>–</u>
	<u>143,980</u>	<u>80,283</u>
Contract liabilities	<u>11,071</u>	<u>26,618</u>

* The amounts in this column are after the adjustments from the application of HKFRS 15.

9. TRADE AND BILLS PAYABLES

The credit period on purchases and subcontracting of contract work services ranges from 30 to 60 days generally. The following is an aged analysis of trade payables presented based on the invoice date and bills payables presented based on the date of issuance of the bills at the end of each reporting period:

	As at 31 March	
	2019 HK\$'000	2018 HK\$'000
Trade payables:		
0 – 30 days	15,017	7,147
31 – 60 days	<u>21,666</u>	<u>8,284</u>
	<u>36,683</u>	<u>15,431</u>
Bills payables:		
0 – 30 days	–	1,096
31 – 60 days	<u>–</u>	<u>1,298</u>
	<u>–</u>	<u>2,394</u>
	<u>36,683</u>	<u>17,825</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in providing E&M engineering services in Hong Kong. We provide services in relation to the supply, installation and maintenance of MVAC system, and also provide services in relation to low voltage electrical system and other E&M system, including fire services system, plumbing and drainage system, in both private and public sectors.

BUSINESS REVIEW

Our revenue slightly increased by approximately HK\$28.4 million, or 7.7%, from approximately HK\$367.9 million for FY2018 to approximately HK\$396.3 million for FY2019. Major projects awarded and major projects undertaken in FY2019 are outlined below.

Projects awarded in FY2019

During FY2019, we were awarded 23 projects with an aggregate contract sum of approximately HK\$693.3 million (out of which 3 projects with aggregate contract sum of approximately HK\$286.4 million were related to electrical system installation).

The following table sets forth the particulars of the five largest projects awarded in FY2019 in terms of contract sum:

Key scope of work	Type (Residential/ Non-residential) ^(Note)	Date of award	Contract sum HK\$'million
Electrical system installation for a proposed residential development at Ap Lei Chau	Residential	31 January 2019	214.3
MVAC system installation for a property development at Yuen Long	Non-residential	11 September 2018	120.0
Electrical system installation for a proposed residential development at Wong Chuk Hang	Residential	17 May 2018	72.0
MVAC system installation for a property development at Pak Shek Kok, Tai Po	Residential	10 August 2018	64.0
MVAC system installation for a residential development at Tuen Mun	Residential	14 November 2018	60.4

Note: “Residential projects” refer to projects that involve residential flats while “Non-residential projects” refer to projects that do not involve residential flats.

Major projects undertaken in FY2019

During FY2019, the Group continued to focus our efforts on the supply, installation and maintenance of MVAC system and low voltage electrical system. Revenue contributed by projects relating to MVAC system and low voltage electrical system accounted for approximately 79.5% and 20.5% respectively (2018: 91.3% and 8.7%).

The following table sets forth the particulars of the five largest projects undertaken in FY2019 in terms of revenue contribution:

Key scope of work	Type (Residential/ Non- residential)	Date of award	Contract sum <i>HK\$'million</i>	Revenue recognised during FY2019 <i>HK\$'million</i>
MVAC system installation for a property development at Tseung Kwan O	Residential	25 February 2016	161.0	75.5
MVAC system installation for a property development at Yuen Long	Residential	20 June 2017	69.9	57.1
MVAC system installation for a proposed residential development at Pak Shek Kok, Tai Po	Residential	7 December 2017	80.7	57.0
Electrical system installation for a proposed composite building at North Point	Residential	9 May 2017	32.8	21.5
MVAC system installation for a proposed residential development at Pak Shek Kok, Tai Po	Residential	24 October 2017	56.7	20.1

Recent Development and Future Prospects

Subsequent to FY2019 and up to the date of this announcement, we were awarded 5 project with a contract sum of approximately HK\$283.3 million, which was related to MVAC system installation.

The construction industry and E&M engineering services industry in Hong Kong have continued to expand. For the public sector, initiatives by the Government such as increasing public housing supply and the implementation of infrastructure projects including the Kai Tak Development project will provide constant stimulus for the industry. The private sector has also benefited from the Hong Kong Government's effort in increasing land supply used for private residential and commercial development. The active real estate transactions have also attracted developers to continue to invest in the Hong Kong real estate market.

Despite the opportunities in the market, the Group is confronting certain industry-wide challenges. In particular, the labour shortage problem, exacerbated by an ageing workforce and lack of skilled talents, will exert pressure on the Group's business. Besides, due to the intensified competition in the industry, the Group has adopted a more competitive pricing strategy to bid for sizable projects. Having said that, the Group will continue to bid for targeted projects with reasonable profit margin.

The Group will keep our endeavour to diversify our projects in different E&M engineering services in order to tap into the opportunities in the growing market. We are content that the Group's revenue contribution by services in relation to low voltage electrical system has increased from approximately 8.7% in FY2018 to approximately 20.5% in FY2019. During the Year, the Group has been awarded 3 projects with aggregate contract sum of approximately HK\$286.4 million, which were related to electrical system installation. Besides, during the Year we were registered as a Fire Service Installation Contractor in Classes 1 & 2 of the Fire Services Department.

With our long-established reputation, experience and proven track record in the industry, the Group takes a positive attitude in achieving a steady growth in our business in the years to come.

FINANCIAL REVIEW

Revenue

Our revenue slightly increased by approximately HK\$28.4 million, or 7.7%, from approximately HK\$367.9 million for FY2018 to approximately HK\$396.3 million for FY2019. Revenue contributed by projects relating to the supply, installation and maintenance of MVAC system and low voltage electrical system was approximately 79.5% and 20.5% respectively (2018: 91.3% and 8.7% respectively).

Gross profit and gross profit margin

Our gross profit decreased by approximately HK\$14.7 million, or 23.6% from approximately HK\$62.3 million for FY2018 to approximately HK\$47.6 million for FY2019. Our gross profit margin decreased by approximately 4.9 percentage points, from approximately 16.9% for FY2018 to approximately 12.0% for FY2019. The decrease in gross profit and gross profit margin was mainly due to (i) intensified competition in the industry faced by the Group that the Group adopted a more competitive pricing strategy in securing new projects; and (ii) increase in direct staff costs as a result of more employees were hired to handle the awarded projects currently on hand.

Other income

Other income for FY2019 increased by approximately HK\$0.6 million, from approximately HK\$0.7 million for FY2018 to approximately HK\$1.3 million for FY2019. The change was mainly attributable to the increase in bank interest income and dividend income.

Other gain

We recorded an increase in other gain of approximately HK\$1.0 million for FY2019, which was attributable to the fair value gain on financial assets at fair value through profit or loss.

Administrative expenses

Our administrative expenses mainly represented administrative staff costs, professional fees, depreciation and rental expenses. The amount remained relatively stable, with an amount of approximately HK\$19.5 million for FY2019 and HK\$19.4 million for FY2018.

Finance costs

Our finance costs solely represented bank interest expenses. The amount remained relatively stable, with an amount of approximately HK\$0.4 million for FY2019 and FY2018.

Income tax expenses

Our income tax expenses decreased by approximately HK\$3.0 million, from approximately HK\$7.6 million for FY2018 to approximately HK\$4.6 million for FY2019 due to the combined effect of the above factors. The effective tax rate for FY2019 was approximately 16.8% (2018: 17.6%).

Profit attributable to owners of the Company

Based on the above factors, profit attributable to owners of the Company decreased by approximately HK\$12.9 million, or approximately 36.2%, from approximately HK\$35.6 million for FY2018 to approximately HK\$22.7 million for FY2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital Structure

As at 31 March 2019, the capital structure of the Group consisted of equity of approximately HK\$236.9 million (2018: HK\$228.0 million) and bank borrowings of approximately HK\$9.2 million (2018: HK\$12.1 million).

Cash position and fund available

During the Year, the Group maintained a healthy liquidity position, with working capital being financed by our operating cash flows, bank borrowings and the retained profits.

As at 31 March 2019, the Group held cash and cash equivalents of approximately HK\$71.3 million (2018: HK\$158.9 million) and short term bank deposits of approximately HK\$28.0 million (2018: nil). The bank deposits of approximately HK\$31.1 million pledged with a bank as at 31 March 2018 to secure the bank borrowings and banking facilities including performance guarantees issued by the bank was released during FY2019.

As at 31 March 2019, the current ratio of the Group was approximately 2.9 times (2018: 3.0 times).

Bank borrowings

As at 31 March 2019, the Group had total bank borrowings of approximately HK\$9.2 million (2018: HK\$12.1 million). As at 31 March 2019, the Group had a facility agreement entered into with a bank with a facility limit of approximately HK\$54.0 million with the following obligation undertaken by the Group: (i) In case of Mr. Yu and Mr. Lau are not the major shareholders of the Company, the Group should notify the bank 14 days in advance; and (ii) In case of Mr. Yu is not entitled to be chairman of the Company, the Group should notify the bank 14 days in advance.

As at 31 March 2019, the Group had another facility agreement entered into with a bank with a facility limit of HK\$30.0 million. The Company had made undertakings relating to certain performance obligation of the controlling shareholders pursuant to the facility agreement including the following: (i) Mr. Yu and Mr. Lau undertake to maintain as the largest shareholders of the Company directly or indirectly; and (ii) Mr. Yu and Mr. Lau shall remain as the chairman or director of the Company. The facility agreement remains effective as at the date of this announcement.

GEARING RATIO

As at 31 March 2019, the Group's gearing ratio was approximately 3.9% (2018: 5.3%), calculated as the bank borrowings divided by the total equity as at the end of the respective years and multiplied by 100%.

NET CURRENT ASSETS

As at 31 March 2019, the Group had net current assets of approximately HK\$200.2 million (2018: HK\$173.0 million). The increase in net current assets position was mainly attributable to the net profit generated from the Group's operations during the Year.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from the banks to meet its liquidity requirements. The Board is not aware of any liquidity issue that may cast significant doubt on the Group's ability to continue as a going concern.

CAPITAL EXPENDITURES

The Group's capital expenditures for FY2019 amounted to approximately HK\$0.9 million (2018: HK\$0.8 million), which was incurred due to the purchase of property and equipment.

FOREIGN EXCHANGE EXPOSURE

The Group's revenue-generating activities and bank borrowings were transacted in Hong Kong Dollar, which is the functional currency of the group entities. The Board considers that the Group was not exposed to significant foreign exchange risk, and had not entered into any financial instrument for hedging. The Board will review the Group's foreign exchange risk and exposure from time to time and will apply hedging where necessary.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 January 2017 through global offering (the "Global Offering") as described in the section "Structure and Condition of the Global Offering" in the prospectus of the Company dated 19 December 2016 (the "Prospectus").

Based on the offer price of HK\$1.20 per share, the net proceeds of the 80,000,000 issued shares received by the Company was approximately HK\$69.0 million, after deducting the listing expenses borne by the Company. The proposed application of net proceeds as stated in the Prospectus has been adjusted according to the principles and proposed percentage of utilisation as specified in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Up to 31 March 2019, the net proceeds were used as follows:

	Net proceeds from Global Offering	Utilisation up to 31 March 2019	Unutilised amount as at 31 March 2019
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Intended use ^(Note)			
Development and expansion of E&M engineering services business	30.4	27.3	3.1
Provision of performance guarantees for projects on hand	29.7	29.7	–
Installation of Enterprise Resource Planning system (“ERP system”)	2.0	0.9	1.1
General working capital	6.9	6.9	–
	<u>69.0</u>	<u>64.8</u>	<u>4.2</u>

Note: Details of the intended use and the implementation plan are set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

As stated in the Prospectus, the works for development and expansion of E&M engineering services business involved the purchase of plant and equipment, employment of engineering and technical staff and obtaining relevant ISO qualifications and the works up to 31 March 2019 according to the Company’s implementation plan set out in the Prospectus had already been completed as scheduled. The remaining net proceeds of approximately HK\$3.1 million as at 31 March 2019 allocated for the development and expansion of E&M engineering services business are intended to be fully utilised for the same specific use by 30 September 2019.

For the installation of ERP system, as the Company requires more time than expected to source the required system from potential suppliers that suit the Company’s needs and expects to take a period of time to implement the system, the completion of installation of the ERP system is expected to be delayed till the end of March 2020. Accordingly, the remaining net proceeds of approximately HK\$1.1 million as at 31 March 2019 allocated for the installation of ERP system are intended to be fully utilised for the same specific use by 31 March 2020.

As at 31 March 2019, the Group held the unutilised net proceeds mainly in short-term deposits with licensed banks in Hong Kong.

PERFORMANCE GUARANTEES AND CONTINGENT LIABILITY

As at 31 March 2019, performance guarantees of approximately HK\$61.7 million (2018: HK\$31.5 million) were given by banks in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and its customers. If the Group fails to provide satisfactory performance to its customers to whom performance guarantees have been given, such customers may demand the banks to pay to them the sum or sum stipulated in such demand. The Group will become liable to compensate such banks accordingly. The performance guarantees will be released upon completion of the contracts work.

The Group had no contingent liability as at 31 March 2019.

PLEDGE OF ASSETS

As at 31 March 2019, the Group's leasehold land and buildings amounted to approximately HK\$19.9 million (31 March 2018: HK\$20.6 million) were pledged with a bank to secure the bank borrowings and banking facilities including performance guarantees issued by the bank. The bank deposits of approximately HK\$31.1 million pledged with a bank as at 31 March 2018 to secure the bank borrowings and banking facilities including performance guarantees issued by that bank was released during FY2019.

CAPITAL COMMITMENTS

As at 31 March 2019, the Group had capital commitments of approximately HK\$0.7 million in relation to acquisition of property and equipment contracted but not provided for (2018: nil).

EMPLOYEES, TRAINING AND REMUNERATION POLICY

As at 31 March 2019, the Group had a total of 120 employees (2018: 93). The remuneration offered to employees generally includes salaries, medical benefits and bonus. In general, the Group determines salaries of its employees based on each employee's qualification, position and seniority. The Group provides training to its employees according to the work requirements.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during FY2019.

SIGNIFICANT INVESTMENTS HELD

The Group did not have any significant investments held as at 31 March 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have other plans for material investments or capital assets as at 31 March 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with Corporate Governance Code

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as its own code of corporate governance. The Board is of the opinion that the Company has complied with all the code provisions set out in the CG Code during the Year.

Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code during the Year.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Year.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 March 2019 and up to the date of this announcement.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The Company has established the audit committee (the “Audit Committee”) on 6 December 2016 with written terms of reference in compliance with the Listing Rules as amended from time to time. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. To Yan Ming Edmond (as chairman), Mr. Lam Yim Nam and Mr. Lee Wing Kee and one non-executive Director, namely Mr. Yu Ho Chi. The Audit Committee has reviewed the Group’s consolidated financial statements for the Year, including the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2019 as set out in this announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of HK1.4 cents per ordinary share for the year ended 31 March 2019 to be payable to the shareholders of the Company on Monday, 30 September 2019 to those shareholders whose names appear on the register of members on Wednesday, 4 September 2019. The payment of final dividend is subject to the approval of the shareholders at the annual general meeting of the Company to be held on Wednesday, 28 August 2019 (the “2019 AGM”).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders of the Company entitled to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Friday, 23 August 2019 to Wednesday, 28 August 2019, both days inclusive, during the period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2019 AGM, all transfer of shares accompanied by the relevant certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (and such address will be changed to Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong with effect from 11 July 2019) for registration not later than 4:30 p.m on Thursday, 22 August 2019.

For the purpose of determining the entitlement of the shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 3 September 2019 to Wednesday, 4 September 2019, both days inclusive, during the period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (and such address will be changed to Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong with effect from 11 July 2019) for registration not later than 4:30 p.m. on Monday, 2 September 2019.

ANNUAL REPORT

The 2019 Annual Report will be published on the Company’s website at <http://www.shunhingeng.com> and the Stock Exchange’s website at www.hkexnews.hk.

By order of the Board
SH Group (Holdings) Limited
Yu Cheung Choy
Chairman

Hong Kong, 26 June 2019

As at the date of this announcement, the Board comprises Mr. Yu Cheung Choy and Mr. Lau Man Ching as the executive Directors; Mr. Yu Ho Chi as the non-executive Director; and Mr. Lam Yim Nam, Mr. Lee Wing Kee and Mr. To Yan Ming Edmond as the independent non-executive Directors.