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BUILD KING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00240)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

FINANCIAL PERFORMANCE HIGHLIGHTS

Percentage of increase in equity** per share	33%
Equity	HK\$941 million
Equity per share	HK76 cents
Group revenue	HK\$6,305 million
Profit attributable to owners of the Company	HK\$412 million
Final dividend per share	HK4.4 cents

** *equity refers to equity attributable to owners of the Company*

RESULTS

The board of directors (the “Board”) of Build King Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018 and the consolidated statement of financial position of the Group as at 31 December 2018 together with the comparative figures for 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue from services	3	6,305,348	5,986,382
Cost of sales		(5,451,546)	(5,523,633)
Gross profit		853,802	462,749
Investments and other income	5	16,189	9,152
Increase in fair value of financial assets at fair value through profit and loss (“FVTPL”)		1,371	20,637
Administrative expenses		(333,138)	(225,639)
Finance costs	6	(20,467)	(18,950)
Share of results of joint ventures		16,319	8,654
Share of results of associates		(1,190)	519
Profit before tax	7	532,886	257,122
Income tax expense	8	(119,128)	(70,048)
Profit for the year		<u>413,758</u>	<u>187,074</u>
Profit for the year attributable to:			
Owners of the Company		412,188	184,230
Non-controlling interests		1,570	2,844
		<u>413,758</u>	<u>187,074</u>
		HK cents	HK cents
Earnings per share	10		
- Basic		<u>33.2</u>	<u>14.8</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK\$'000	HK\$'000
Profit for the year	413,758	187,074
Other comprehensive (expense) income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(7,244)	9,603
Share of reserves of joint ventures	181	-
Total comprehensive income for the year	406,695	196,677
Total comprehensive income attributable to:		
Owners of the Company	405,351	193,521
Non-controlling interests	1,344	3,156
	406,695	196,677

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment		219,922	385,899
Intangible assets		59,958	62,851
Goodwill		30,554	30,554
Interests in joint ventures		151,926	129,519
Interests in associates		7,245	7,968
Other financial asset at amortised cost		38,654	42,909
		<u>508,259</u>	<u>659,700</u>
Current assets			
Inventories		58,146	-
Amounts due from customers for contract work		-	253,443
Debtors, deposits and prepayments	11	371,043	1,681,032
Contract assets	12	1,672,750	-
Amounts due from fellow subsidiaries		-	1,149
Amounts due from associates		7,699	7,719
Amounts due from other partners of joint operations		212,994	134,934
Loans to joint ventures		22,020	-
Financial assets at FVTPL		54,623	45,419
Tax recoverable		9,415	7,338
Pledged bank deposits		2,336	37
Time deposits with original maturity of not less than three months		284,400	-
Bank balances and cash		1,092,545	949,029
		<u>3,787,971</u>	<u>3,080,100</u>
Current liabilities			
Amounts due to customers for contract work		-	410,053
Creditors and accrued charges	13	2,194,569	2,068,963
Contract liabilities		566,355	-
Amount due to an intermediate holding company		18,891	16,466
Amounts due to fellow subsidiaries		8,839	-
Amount due to a joint venture		1,142	1,142
Amounts due to other partners of joint operations		2,691	61,710
Amounts due to non-controlling interests		3,094	3,094
Amount due to an associate		17,686	16,580
Tax payable		128,170	60,733
Bank loans - due within one year		253,400	235,821
		<u>3,194,837</u>	<u>2,874,562</u>
Net current assets		<u>593,134</u>	<u>205,538</u>
Total assets less current liabilities		<u><u>1,101,393</u></u>	<u><u>865,238</u></u>

	2018 HK\$'000	2017 HK\$'000
Capital and reserves		
Ordinary share capital	124,188	124,188
Reserves	816,446	585,367
Equity attributable to owners of the Company	940,634	709,555
Non-controlling interests	3,951	3,005
Total equity	944,585	712,560
Non-current liabilities		
Deferred tax liabilities	5,750	5,750
Obligations in excess of interests in joint ventures	4,853	-
Obligations in excess of interests in associates	13,794	14,527
Amount due to an associate	3,192	3,701
Bonds	129,219	128,700
	156,808	152,678
	1,101,393	865,238

Notes:

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values at the end of each reporting period.

The 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”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HKFRSs

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

The Group has applied the following new and amendments to HKFRSs issued by the 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 new and amendments to HKFRSs in the current year has had no material effect 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 Impacts and changes in accounting policies on application of HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current year. HKFR15 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, i.e. 1 January 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. 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:

- Construction contracts; and
- Sewage treatment plant operation.

2.1.1 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 January 2018.

	Note	Impact on application of HKFRS 15 at 1 January 2018 HK\$’000
Retained profits		
Adjustments of amounts due from customers for contract work and creditors and accrued charges	(a)	(153,879)
Tax effect	(a)	16,465
		<hr/>
		(137,414)
Non-controlling interests	(a)	398
		<hr/>
		(137,016)

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

	Notes	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassification HK\$'000	Remeasurement HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK\$'000
Current assets					
Inventories	(a)	-	38,064	-	38,064
Amounts due from customers for contract work	(a)	253,443	(38,064)	(215,379)	-
Debtors, deposits and prepayments	(b) & (c)	1,681,032	(1,342,656)	-	338,376
Contract assets	(b) & (c)	-	1,342,656	-	1,342,656
Current liabilities					
Amounts due to customers for contract work	(d)	410,053	(410,053)	-	-
Creditors and accrued charges	(a)	2,068,963	-	(61,500)	2,007,463
Contract liabilities	(d)	-	410,053	-	410,053
Tax payable	(a)	60,733	-	(16,465)	44,268
Capital and reserves					
Reserves	(a)	585,367	-	(137,016)	448,351
Non-controlling interests	(a)	3,005	-	(398)	2,607

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

Notes:

- (a) In relation to construction contracts previously accounted under HKAS 11, the Group continues to apply output method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Deferred materials of HK\$38,064,000 were reclassified from amounts due from customers for contract work to inventories. Under HKAS 11, construction costs were charged to profit or loss by reference to the stage of completion of the contract, which is measured by reference to the estimated total revenue for contracts entered into by the Group that have been performed to date. Under HKFRS 15, costs that related to satisfy performance obligations are expensed as incurred. Construction costs of HK\$215,379,000 that have been incurred but deferred to be recognised in profit or loss under HKAS 11 included in amounts due from customers for contract work were charged to retained profits and non-controlling interests. Construction costs of HK\$61,500,000 that have not yet incurred but accelerated to be recognised in profit or loss under HKAS 11 and included in creditors and accrued charges were credited to retained profits and non-controlling interests. The related tax effects of HK\$16,465,000 were recognised in tax payable and included in adjustment to retained profits.
- (b) At the date of initial application, unbilled revenue of HK\$887,735,000 arising from the construction contracts are conditional on the satisfaction by the customers on the construction work completed by the Group and the work is pending for the certification by the customers, and such balance was reclassified from trade and other receivables to contract assets.

- (c) At the date of initial application, retention receivables of HK\$454,921,000 arising from the construction contracts are conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, and such balance was reclassified from trade and other receivables to contract assets.
- (d) The reclassification of HK\$410,053,000 from amounts due to customers for contract work to contract liabilities under HKFRS 15 represented the Group's obligations to transfer to the customers of the services to which the assets relate and the Group has received consideration from the customers.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position at 31 December 2018 and its consolidated statement of profit or loss, 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 at 31 December 2018

	As reported HK\$'000	Reclassification HK\$'000	Remeasurement HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current assets				
Inventories	58,146	(58,146)	-	-
Amounts due from customers for contract work	-	11,480	4,042	15,522
Debtors, deposits and prepayments	371,043	1,672,750	-	2,043,793
Contract assets	1,672,750	(1,672,750)	-	-
Tax recoverable	9,415	-	881	10,296
Current liabilities				
Amounts due to customers for contract work	-	566,355	-	566,355
Creditors and accrued charges	2,194,569	(46,666)	8,023	2,155,926
Contract liabilities	566,355	(566,355)	-	-
Tax payable	128,170	-	1,638	129,808
Capital and reserves				
Reserves	816,446	-	(5,056)	811,390
Non-controlling interests	3,951	-	318	4,269

Impact on the consolidated statement of profit or loss for the year ended 31 December 2018

	As reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Cost of sales	(5,451,546)	(157,860)	(5,609,406)
Gross profit	853,802	(157,860)	695,942
Profit before tax	532,886	(157,860)	375,026
Income tax expense	(119,128)	15,708	(103,420)
Profit for the year	<u>413,758</u>	<u>(142,152)</u>	<u>271,606</u>
Profit for the year attributable to:			
Owners of the Company	412,188	(142,072)	270,116
Non-controlling interests	1,570	(80)	1,490
	<u>413,758</u>	<u>(142,152)</u>	<u>271,606</u>

Impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	As reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Profit for the year	413,758	(142,152)	271,606
Total comprehensive income for the year	<u>406,695</u>	<u>(142,152)</u>	<u>264,543</u>
Total comprehensive income for the year attributable to:			
Owners of the Company	405,351	(142,072)	263,279
Non-controlling interests	1,344	(80)	1,264
	<u>406,695</u>	<u>(142,152)</u>	<u>264,543</u>

Impact on the consolidated statement of cash flows for the year ended 31 December 2018

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK\$'000	HK\$'000	HK\$'000
Operating activities			
Profit before tax	532,886	(157,860)	375,026
Adjustments for:			
Depreciation of property, plant and equipment	188,695	(184,637)	4,058
Operating cash flows before movements in working capital	716,737	(342,497)	374,240
Increase in inventories	(20,082)	20,082	-
Decrease in amounts due from customers for contract work	-	237,921	237,921
Increase in debtors, deposits and prepayments	(30,449)	(330,094)	(360,543)
Increase in contract assets	(330,094)	330,094	-
Decrease in amounts due to customers for contract work	-	156,302	156,302
Increase in creditors and accrued charges	187,106	84,494	271,600
Increase in contract liabilities	156,302	(156,302)	-

The explanations of the above changes affected in the current year by the application of HKFRS 15 as compared to HKAS 11, HKAS 18 and the related interpretations are similar to the explanations set out in notes (a) to (d) above for describing the adjustments made to the consolidated statement of financial position at 1 January 2018 upon adoption of HKFRS 15.

2.2 Impacts and changes in accounting policies on application of HKFRS 9 “Financial Instruments” and the related amendments

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 (i) the classification and measurement of financial assets and financial liabilities; (ii) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets); and (iii) 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 under ECL model) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between the carrying amounts at 31 December 2017 and the carrying amounts at 1 January 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 application of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets and impairment under ECL model for financial assets at amortised cost of the Group.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected.

	31 December 2017 (Audited) HK\$’000	HKFRS 15 HK\$’000	1 January 2018 (Restated) HK\$’000
Current assets			
Inventories	-	38,064	38,064
Amounts due from customers for contract work	253,443	(253,443)	-
Debtors, deposits and prepayments	1,681,032	(1,342,656)	338,376
Contract assets	-	1,342,656	1,342,656
Current liabilities			
Amounts due to customers for contract work	410,053	(410,053)	-
Creditors and accrued charges	2,068,963	(61,500)	2,007,463
Contract liabilities	-	410,053	410,053
Tax payable	60,733	(16,465)	44,268
Net current assets	205,538	(137,414)	68,124
Total assets less current liabilities	865,238	(137,414)	727,824
Capital and reserves			
Reserves	585,367	(137,016)	448,351
Non-controlling interests	3,005	(398)	2,607
Total equity	712,560	(137,414)	575,146

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

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2021.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for business combination for which the acquisition date is on or after the beginning of the first annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$53,275,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$7,145,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) - Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening without restating comparative information.

Amendments to HKAS 28 “Long-term Interests in Associates and Joint Ventures”

The amendments clarify that an entity applies HKFRS 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied that form part of the net investment in the investee. Furthermore, in applying HKFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by HKAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS 28).

As at 31 December 2018, loans to joint ventures of HK\$72,397,000 are considered as long-term interests that, in substance form part of the Group’s net investments in the relevant joint venture. However, the application is not expected to have impact as the Group’s existing accounting policies are consistent with the requirements clarified by the amendments.

3. REVENUE FROM SERVICES

A. For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

<u>Segments</u>	Hong Kong HK\$'000	2018 PRC HK\$'000	Consolidated HK\$'000
Types of goods or service			
Construction contracts	6,282,855	-	6,282,855
Sewage treatment plant operation	-	22,493	22,493
Total revenue	<u>6,282,855</u>	<u>22,493</u>	<u>6,305,348</u>
Timing of revenue recognition			
Over time	<u>6,282,855</u>	<u>22,493</u>	<u>6,305,348</u>

B. For the year ended 31 December 2017

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

	2017 HK\$'000
Revenue analysed by revenue from:	
Construction contracts	5,965,061
Sewage treatment plant operation	21,321
	<u>5,986,382</u>

4. SEGMENTAL INFORMATION

The Group is mainly engaged in civil engineering work. Information reported to the Company's chief operating decision maker (i.e. the executive directors) for the purposes of resource allocation and assessment of performance is focused on geographical location of its customers including Hong Kong, the People's Republic of China (the "PRC") and the Middle East. No operating segments have been aggregated in arriving at the reportable segments of the Group. The Group's reportable and operating segments under HKFRS 8 are summarised as follows:

Year ended 31 December 2018

	Hong Kong	The PRC	Middle	Total
	HK\$'000	HK\$'000	East	HK\$'000
			HK\$'000	
<u>Results</u>				
Segment revenue	<u>6,282,855</u>	<u>22,493</u>	<u>-</u>	<u>6,305,348</u>
Segment profit (loss)	<u>534,577</u>	<u>5,712</u>	<u>(1,171)</u>	539,118
Unallocated expenses				(5,614)
Investments income				3,349
Increase in fair value of financial assets at FVTPL				1,371
Share of results of joint ventures				16,319
Share of results of associates				(1,190)
Finance costs				<u>(20,467)</u>
Profit before tax				<u>532,886</u>

Year ended 31 December 2017

	Hong Kong HK\$'000	The PRC HK\$'000	Middle East HK\$'000	Total HK\$'000
<u>Results</u>				
Segment revenue	<u>5,965,061</u>	<u>21,321</u>	<u>-</u>	<u>5,986,382</u>
Segment profit (loss)	<u>290,903</u>	<u>7,409</u>	<u>(48,641)</u>	249,671
Unallocated expenses				(5,837)
Investments income				2,428
Increase in fair value of financial assets at FVTPL				20,637
Share of results of joint ventures				8,654
Share of results of associates				519
Finance costs				<u>(18,950)</u>
Profit before tax				<u>257,122</u>

There are no inter-segment sales for both years.

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

Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of dividends from financial assets at FVTPL, change in fair value of financial assets at FVTPL, share of results of joint ventures and associates, finance costs and unallocated expenses.

5. INVESTMENTS AND OTHER INCOME

	2018 HK\$'000	2017 HK\$'000
Investments and other income include:		
Dividends from financial assets at FVTPL	3,349	2,428
Gain on disposal of property, plant and equipment	327	-
Interest on bank deposits	5,230	871
Interest on other receivable	247	987
Interest on other financial asset at amortised cost	1,043	1,149
PRC Value-Added Tax refund	1,278	1,901
Government subsidy	<u>589</u>	<u>145</u>

6. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest on:		
Bank borrowings	10,250	8,762
Bonds	9,620	9,620
Imputed interest expense on non-current interest-free amount due to an associate	597	568
	<u>20,467</u>	<u>18,950</u>

7. PROFIT BEFORE TAX

	2018 HK\$'000	2017 HK\$'000
Profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration		
Current year	1,904	1,904
Underprovision in prior years	293	44
	<u>2,197</u>	<u>1,948</u>
Depreciation of property, plant and equipment	188,695	122,832
Less: amount attributable to construction contracts and included in amounts due from customers from contract work	-	(113,336)
	<u>188,695</u>	<u>9,496</u>
Hire charges for plant and machinery	169,972	144,747
Less: amount attributable to construction contracts and included in amounts due from customers from contract work	-	(144,747)
	<u>169,972</u>	<u>-</u>
Amortisation of intangible assets	1,385	1,459
Net foreign exchange losses (gains)	823	(775)
Operating lease rentals in respect of land and buildings	26,984	28,619
Less: amount attributable to construction contracts and included in amounts due from customers from contract work	-	(17,274)
	<u>26,984</u>	<u>11,345</u>
Staff costs:		
Directors' remuneration	22,832	15,957
Other staff costs	1,027,462	913,961
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK\$1,552,000 (2017: HK\$980,000)	35,104	33,789
	<u>1,085,398</u>	<u>963,707</u>
Less: amount attributable to construction contracts and included in amounts due from customers from contract work	-	(814,646)
	<u>1,085,398</u>	<u>149,061</u>

8. INCOME TAX EXPENSE

	2018 HK\$'000	2017 HK\$'000
Current tax:		
Hong Kong	106,823	60,197
The PRC	1,498	2,045
	<u>108,321</u>	<u>62,242</u>
Underprovision in prior years:		
Hong Kong	10,798	7,564
The PRC	9	242
	<u>10,807</u>	<u>7,806</u>
	<u>119,128</u>	<u>70,048</u>

Hong Kong Profits Tax is calculated for 16.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions.

9. DIVIDEND

A final dividend for the year ended 31 December 2018 of HK4.4 cents (2017: HK3 cents) per ordinary share, totaling approximately HK\$54,643,000 based on 1,241,877,992 ordinary shares (2017: approximately HK\$37,256,000 based on 1,241,877,992 ordinary shares) has been proposed by the board of directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. This final dividend has not been included as a liability in the consolidated financial statements.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2018 HK\$'000	2017 HK\$'000
Profit for the year attributable to owners of the Company and earnings for the purpose of basic earnings per ordinary share	<u>412,188</u>	<u>184,230</u>
	Number of Shares	
	2018 '000	2017 '000
Weighted average number of ordinary shares for the purpose of basic earnings per ordinary share	<u>1,241,878</u>	<u>1,241,878</u>

The Company has no potential ordinary shares outstanding during both years. Accordingly, no diluted earnings per share information is presented.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2018	2017
	HK\$'000	HK\$'000
Trade receivables from contracts with customers analysed by age:		
Unbilled revenue	-	887,735
0 to 60 days	236,903	201,615
61 to 90 days	845	200
Over 90 days	18,321	12,780
	256,069	1,102,330
Bill receivables	6,773	2,130
Retention receivables	-	454,921
Other debtors, deposits and prepayments	108,201	121,651
	371,043	1,681,032
Retention receivables:		
Due within one year	-	129,691
Due more than one year	-	325,230
	-	454,921

The Group allows an average credit period of 60 days to its trade customers.

Upon application of HKFRS 15 both retention receivables and unbilled revenue are classified as contract assets.

12. CONTRACT ASSETS

	At	At
	31 December	1 January
	2018	2018*
	HK\$'000	HK\$'000
Analysed as current:		
Unbilled revenue of construction contracts (note a)	1,171,490	887,735
Retention receivables of construction contracts (note b)	501,260	454,921
	1,672,750	1,342,656
Retention receivables of construction contracts		
Due within one year	303,200	129,691
Due more than one year	198,060	325,230
	501,260	454,921

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

Notes:

- (a) Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditional upon the satisfaction by the customers on the construction work completed by the Group and the work is pending for the certification by the customers. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the time the Group obtains the certification of the completed construction work from the customers.
- (b) Retention receivables included in contract assets represents the Group's right to receive consideration for work performed and not yet billed because the rights are conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the expiry date of the period for the provision of assurance by the Group on the service quality of the construction work performed by the Group. The due dates for retention receivables are usually one year after the completion of construction work.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

13. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

	2018	2017
	HK\$'000	HK\$'000
Trade creditors analysed by age:		
0 to 60 days	130,116	232,484
61 to 90 days	18,035	11,856
Over 90 days	42,933	41,680
	191,084	286,020
Retention payables	368,066	365,023
Accrued project costs	1,545,509	1,376,389
Other creditors and accrued charges	89,910	41,531
	<u>2,194,569</u>	<u>2,068,963</u>
Retention payables:		
Repayable within one year	207,503	124,257
Repayable more than one year	160,563	240,766
	<u>368,066</u>	<u>365,023</u>

For retention payables in respect of construction contracts, the due dates are usually one year after the completion of the construction work.

DIVIDEND

The Board recommends the payment of a final dividend of HK4.4 cents (2017: HK3 cents) per ordinary share payable to shareholders whose names appear in the register of members of the Company on Tuesday, 28 May 2019.

Subject to the approval of shareholders at the forthcoming Annual General Meeting, it is expected that the payment of final dividend will be made on or before Friday, 5 July 2019.

CLOSURES OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting to be held on Tuesday, 21 May 2019, the register of members of the Company will be closed from Thursday, 16 May 2019 to Tuesday, 21 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Progressive Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 15 May 2019.

The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting. The record date for the proposed final dividend is on Tuesday, 28 May 2019. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 27 May 2019 to Tuesday, 28 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Progressive Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 24 May 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Results

For the year 2018, the Group's turnover increased by 5.3% from HK\$5,986 million to HK\$6,305 million; the profit for the year increased by 121% from HK\$187 million to HK\$414 million, of which HK\$142 million was the impact of adoption of a new accounting standard. The impacts of change of the accounting policy are detailed in the Note 2 of this announcement. Had the new accounting standard not been applied, the profit for the year would have been HK\$272 million, representing a year-to-year increase of 45%.

Although the increase of turnover in both the civil and building division was mild, the gross profit soared by 50% from HK\$463 million last year to HK\$696 million (excluding the impact of adoption of the new accounting standard). It was because several major projects were completed during the year and the settlement of these final accounts contributed to the significant part of the profit for the year. On investment side, the joint ventures engaging in investment properties in USA and central heating business in northern PRC also started to contribute a total profit of HK\$16 million.

At the beginning of 2018, we were not optimistic in securing new major civil engineering projects because of fierce competition in construction market. But our hardworking yielded good results. Following the award of reclamation work at Tung Chung New Town Extension and Yau Ma Tei East of Central Kowloon Route in first quarter of 2018, we were awarded in the last quarter with a few large projects: Yau Ma Tei West of contract sum over HK\$3 billion, our second project for Central Kowloon Route; and Intermodal Transfer Building at Hong Kong Airport of contract sum over HK\$1 billion. In total, the civil division successfully bided twelve civil engineering projects of total contract sum of HK\$6 billion. Together with other minor subcontracts and the five new building projects of HK\$4.6 billion, the Group secured new contracts of over HK\$10 billion during the year, and the total outstanding works at the date of this announcement amounted to HK\$18 billion.

There were a number of civil projects running to completion with their final accounts close to conclusion in 2018. For Shatin Central Link, other than minor remaining works at Diamond Hill Station, the new Kai Tak Station and Hung Hom North Approach Tunnel had been completed. On the two projects in Central Wanchai Bypass, the works were handed over to the client smoothly for the opening of Wanchai Bypass; the final accounts were satisfactorily settled. The Deep Cement Mixing Works for Three-Runway System Project at Hong Kong Airport were also completed before the year end. In this DCM project, not only did we achieve satisfactory financial results, we believe we can leverage this new DCM technology to win future tenders of large-scale reclamation works in Hong Kong. Both Tuen Mun-Chek Lap Kok Link Northern Connecting Toll Plaza and the infrastructural works at Liantang/Heung Yuen Wai Boundary Control Point progressed towards target completion in 2019.

The Building Division secured five new projects of HK\$4.6 billion, a record year for building tenders. Among these new projects are the building work of contract sum of HK\$1.7 billion for the residential property development project of Road King Infrastructure Limited at Au Tau, Yuen Long, and a building project of contract sum of HK\$1 billion for private property development in Shum Shui Po. These new projects were all smoothly progressed and will complete in 2020. On the design and build contract for Kowloon Eastern Regional Headquarter of Hong Kong Police, we managed to maintain the progress well on programme without disruption even though the lead joint venture partner is under liquidation. We have endeavored to support the smooth running of the project all the way through and are confident now that under our sole management the project will continue the momentum to complete in 2020.

The investments on projects in PRC also continued to generate steady profit to the Group. The central heating supply in Dezhou were running smoothly as planned. The sewage treatment plant at Wuxi City were operating at average 45,000 tonnes per day, 90% of its maximum design capacity. Currently, we are working on how to upgrade the equipment to meet the higher standards for effluent discharged from the treatment plant and accordingly the increase of sewage treatment fee is being discussed for the additional investment. We would anticipate the upgrading work to be implemented in 2019.

Employees and Remuneration Policies

As at 31 December 2018, the Group had a total of 2,065 employees and total remuneration for the year ended 31 December 2018 was approximately HK\$1,085 million. Competitive remuneration packages are structured for each employee commensurate with individual responsibility, qualifications, experience and performance. In addition, discretionary bonuses may be paid depending upon the financial performance of the Group as well as performance of the individual.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2018, the Group had liquid assets of HK\$1,432 million (as at 31 December 2017: HK\$994 million) comprising financial assets at FVTPL of HK\$55 million (as at 31 December 2017: HK\$45 million), time deposits with original maturity of not less than three months of HK\$284 million (as at 31 December 2017: Nil) and bank balances and cash of HK\$1,093 million (as at 31 December 2017: HK\$949 million).

As at 31 December 2018, the Group had a total of interest bearing borrowings of HK\$382 million (as at 31 December 2017: HK\$364 million) comprising bank loans of HK\$253 million (as at 31 December 2017: HK\$236 million) and the bonds of HK\$129 million (as at 31 December 2017: HK\$128 million) with following maturity profile:

	At 31 December 2018 HK\$ million	At 31 December 2017 HK\$ million
On demand or within one year	198	181
In the second year	168	55
In the third to fifth year inclusive	16	128
	382	364

The Group's borrowings, bank balances and cash and financial assets at FVTPL were principally denominated in Hong Kong dollars. Hence, there is no exposure to foreign exchange rate fluctuations. During the year, the Group had no financial instrument for hedging purpose. As at 31 December 2018, total borrowings of HK\$129 million (as at 31 December 2017: HK\$128 million) carried interest at fixed rate.

Capital Structure and Gearing

As at 31 December 2018, total equity was HK\$944 million (as at 31 December 2017: HK\$713 million) comprising ordinary share capital of HK\$124 million (as at 31 December 2017: HK\$124 million), reserves of HK\$816 million (as at 31 December 2017: HK\$586 million) and non-controlling interests of HK\$4 million (as at 31 December 2017: HK\$3 million).

As at 31 December 2018, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 40% (as at 31 December 2017: 51%).

Pledge of Assets

As at 31 December 2018, bank deposits of the Group amounting to HK\$2,336,000 (as at 31 December 2017: HK\$37,000) were pledged to banks for securing the banking facilities granted to the Group.

As at 31 December 2017, the Group had pledged certain vessels with carrying value in aggregate of HK\$139,787,000 to secure a bank loan. The pledge has been released in 2018 upon repayment of the bank loan.

CORPORATE GOVERNANCE CODE

The Company is committed to attaining good standard of corporate governance practices and has complied with the code provisions of Corporate Governance Code for the year ended 31 December 2018 set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) except for (i) code provision A.2.1 in respect of the separate roles of the chairman and chief executive officer; and (ii) Listing Rules 3.10(1), 3.21 and 3.25.

(i) Code provision A.2.1

Mr. Zen Wei Peu, Derek has been both the Chairman and Chief Executive Officer of the Company. In addition to his responsibilities as Chairman overseeing the function of the Board and formulating overall strategies and policies of the Company, Mr. Zen has taken up the management of the Group’s business and overall operation. However, the day-to-day running of the Company has been delegated to the divisional heads responsible for the different aspects of the business.

The Board considers that this structure will not impair the balance of power and authority between the board and the management of the business of the Group given that there are a strong and independent non-executive directorship element on the Board and a clear division of responsibility in running the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

(ii) Listing Rules 3.10(1), 3.21 and 3.25

Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. The audit committee of a listed issuer must comprise a minimum of three members under Rule 3.21 of the Listing Rules. The remuneration committee of a listed issuer should be chaired by an independent non-executive director and comprise a majority of independent non-executive directors under Rule 3.25 of the Listing Rules.

Following the passing away of Dr. Chow Ming Kuen, Joseph on 13 October 2018, the Board comprised six members with two Executive Directors, two Non-executive Directors and two Independent Non-executive Directors. As a result, the number of Independent Non-executive Directors of the Board and the number of members of the Audit Committee were below the minimum number prescribed under Rule 3.10(1) and Rule 3.21 of the Listing Rules respectively, and there was a vacancy in the position of the Chairman of the Remuneration Committee.

Subsequent to the appointment of Mr. Lo Yiu Ching, Dantes as an Independent Non-executive Director and a member of each of the Audit Committee and the Remuneration Committee as well as the appointment of Mrs. Ling Lee Ching Man, Eleanor as the Chairwoman of the Remuneration Committee of the Company all on 30 November 2018, (i) the Board comprises three Independent Non-executive Directors which fulfills the requirement under Rule 3.10(1) of the Listing Rules; (ii) the Audit Committee of the Company comprises a minimum of three members which fulfills the requirement under Rule 3.21 of the Listing Rules; and (iii) the Remuneration Committee of the Company is chaired by an Independent Non-executive Director and comprises a majority of Independent Non-executive Directors which fulfills the requirement under Rule 3.25 of the Listing Rules.

Details of corporate governance code are set out in Annual Report 2018.

AUDIT COMMITTEE

The Audit Committee has conducted a meeting with the management and external auditor to review the accounting policies adopted by the Group, the consolidated financial statements for the year ended 31 December 2018, the general scope of audit work conducted by the external auditor and assessment of the Group's internal controls.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2018.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at Academy Room I-II, 1st Floor, InterContinental Grand Stanford Hong Kong, 70 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Tuesday, 21 May 2019 at 2:00 p.m. and the Notice of the Annual General Meeting will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the Company's website (www.buildking.hk) and the Stock Exchange's website (www.hkexnews.hk). The Annual Report 2018 containing all the information required by the Listing Rules will be published on the websites of the Company and the Stock Exchange and despatched to the shareholders of the Company in due course.

BOARD OF DIRECTORS

As at the date hereof, the Board comprises two executive Directors, namely Mr. Zen Wei Peu, Derek and Mr. Chang Kam Chuen, Desmond, two non-executive Directors, namely Mr. David Howard Gem and Mr. Chan Chi Hung, Anthony, and three independent non-executive Directors, namely Mr. Ho Tai Wai, David, Mrs. Ling Lee Ching Man, Eleanor and Mr. Lo Yiu Ching, Dantes.

By order of the Board
Build King Holdings Limited
Zen Wei Peu, Derek
Chairman

Hong Kong, 19 March 2019