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Kin Pang Holdings Limited

建鵬控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1722)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

ANNUAL RESULTS

The board (the “Board”) of directors (the “Directors”) of Kin Pang Holdings Limited (the “Company”) is pleased to announce the audited consolidated financial information of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2018 together with the comparative figures for the corresponding year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018 <i>MOP'000</i>	2017 <i>MOP'000</i>
	<i>NOTES</i>		
Revenue	4	260,629	245,432
Direct costs		<u>(223,774)</u>	<u>(206,984)</u>
Gross profit		36,855	38,448
Other income, gains and losses, net	5	1,139	239
Impairment loss allowance of trade receivables and contract assets		(511)	–
Administrative expenses		(17,597)	(12,575)
Finance costs	6	(110)	(151)
Listing expenses		<u>–</u>	<u>(16,122)</u>
Profit before taxation	7	19,776	9,839
Income tax expense	8	<u>(2,941)</u>	<u>(3,777)</u>
Profit for the year		16,835	6,062
Other comprehensive expense for the year			
Fair value loss on investment in an equity instrument at fair value through other comprehensive income (“FVTOCI”)		<u>(546)</u>	<u>–</u>
Profit and total comprehensive income for the year		<u>16,289</u>	<u>6,062</u>
Earnings per share			
Basic (<i>MOP cents</i>)	10	<u>1.68</u>	<u>0.78</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	<i>NOTES</i>	2018 MOP'000	2017 <i>MOP'000</i>
Non-current assets			
Property, plant and equipment		13,822	12,308
Deposits		701	2,200
Equity instrument at FVTOCI		10,154	–
		24,677	14,508
Current assets			
Trade receivables	11	11,351	31,041
Other receivables, deposits and prepayments		46,794	42,298
Contract assets	12	85,722	–
Amounts due from customers for contract work		–	72,207
Pledged bank deposits		32,259	200
Bank balances and cash		65,817	120,588
		241,943	266,334
Current liabilities			
Trade and other payables and accruals	13	40,489	68,255
Amounts due to customers for contract work		–	1,026
Amount due to a related party		–	180
Tax payable		9,902	10,334
Bank borrowings	14	640	1,070
		51,031	80,865
Net current assets		190,912	185,469
Total assets less current liabilities		215,589	199,977
Non-current liability			
Bank borrowings	14	1,880	2,482
Net assets		213,709	197,495
Capital and reserves			
Share capital		10,300	10,300
Reserves		203,409	187,195
Total equity		213,709	197,495

NOTES

1. GENERAL INFORMATION AND REORGANISATION

General information

Kin Pang Holdings Limited (the “Company”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands on 22 June 2017 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 December 2017. The Company’s immediate and ultimate holding company is Fortunate Year Investments Limited (“Fortunate Year”), a limited company incorporated in the British Virgin Islands (“BVI”) with limited liability and controlled by Mr. Kong Kin I (“Mr. Kong”) and Ms. Choi Fong Lan (“Ms. Choi”), who is the spouse of Mr. Kong.

The principal activity of the Company is investment holding. The Group’s principal activities are civil engineering business in Macau.

The consolidated financial statements are presented in Macau Pataca (“MOP”), which is also the functional currency of the Company.

Group Reorganisation and Basis of Preparation

Before the completion of the reorganisation, Kin Pang Construction and Engineering Company Limited (“Kin Pang”) and Greatway Construction Engineering Limited (“Greatway”), the operating subsidiaries of the Company, were owned by Mr. Kong and Ms. Choi.

In preparation of the listing of the Company’s shares on the Stock Exchange (the “Listing”), the companies comprising the Group underwent the reorganisation as described below.

- (i) On 1 March 2017, Clear Achieve Global Limited (“Clear Achieve”) was incorporated as limited liability company in BVI by issuing 60 shares and 40 shares of United States dollar (“US\$”) 1.00 each to Mr. Kong and Ms. Choi, respectively.
- (ii) On 31 May 2017, Mr. Kong and Ms. Choi transferred to Clear Achieve all shares of Kin Pang at a cash consideration of MOP250,000. Upon the completion of this transaction, Kin Pang became a wholly-owned subsidiary of Clear Achieve.
- (iii) Quasar Global Selection SPC Fund – Shenzhen Qianhai Glory Fund (“the Pre-IPO Investor”), an independent third party and a segregated portfolio company incorporated in the Cayman Islands, entered into a subscription agreement with Clear Achieve, Mr. Kong and Ms. Choi for the subscription of 20 shares of Clear Achieve for a cash consideration of Hong Kong dollar (“HK\$”)13,000,000 (equivalent to MOP13,450,000) on 19 May 2017. The subscription was completed on 1 June 2017.

On 19 May 2017, Clear Achieve allotted and issued 48 shares and 32 shares to Mr. Kong and Ms. Choi, respectively. The allotment was completed and shares were issued on 1 June 2017.

- (iv) On 22 June 2017, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each with one share allotted and issued as nil-paid to the initial subscriber. On the same date, the initial subscriber transferred his one share to Fortunate Year, a company incorporated in BVI with limited liability and owned as to 60% by Mr. Kong and 40% by Ms. Choi.

- (v) On 26 June 2017, Mr. Kong and Ms. Choi transferred the entire issued share capital of Greatway to Clear Achieve at a cash consideration of HK\$2. Upon the completion of the transaction, Greatway became a wholly-owned subsidiary of Clear Achieve.
- (vi) On 14 July 2017, Mr. Kong, Ms. Choi and the Pre-IPO Investor transferred their entire equity interest in Clear Achieve to the Company in consideration of the allotment and issue of 89 shares of the Company to Fortunate Year (under the instruction of Mr. Kong and Ms. Choi) and 10 shares of the Company to the Pre-IPO Investor. Upon completion of the transaction, Clear Achieve became a wholly-owned subsidiary of the Company.

Pursuant to the reorganisation detailed above, the Company became the holding company of the companies now comprising the Group on 14 July 2017. The Group comprising the Company and its subsidiaries resulting from the reorganisation is regarded as a continuing entity, accordingly, the consolidated financial statements have been prepared as if the Company had always been the holding company of the Group.

The consolidated financial statements have been prepared under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2017 include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence for the year ended 31 December 2017, or since their respective date of incorporation, where there is a shorter period.

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

The Group has applied the following new and amendments to HKFRSs and interpretation 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 and interpretation 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.

HKFRS 15 “Revenue from Contracts with Customers”

In the current year, the Group has applied HKFRS 15 for the first time applying the limited retrospective method with the cumulative effect of initial application recognised at the date of initial application, 1 January 2018. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations with no material effect on timing and amount of revenues recognised in these consolidated financial statements.

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

- Building and ancillary services
- Emergency repair services

Summary of effects arising from initial application of HKFRS 15

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.

		Carrying amounts previously reported at		Carrying amounts under HKFRS 15 at
	Notes	31 December 2017 MOP'000	Reclassification MOP'000	1 January 2018* MOP'000
Current assets				
Other receivables, deposits and prepayments	(a)	42,298	(26,873)	15,425
Contract assets	(c)	–	98,180	98,180
Amounts due from customers for contract work	(a)	72,207	(72,207)	–
Current liabilities				
Trade and other payables	(b)	68,255	(482)	67,773
Contract liabilities	(c)	–	608	608
Amounts due to customers for contract work	(b)	1,026	(1,026)	–

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

Notes:

- (a) As at 1 January 2018, retention receivables of MOP26,873,000 arising from 23 contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from other receivables, deposits and prepayments to contract assets. In addition, amounts due from customers for contract works of MOP72,207,000 was reclassified into contract assets.
- (b) As at 1 January 2018, advances from customers of MOP482,000 in respect of contracts for building and ancillary services previously included in trade and other payables and accruals were reclassified into contract liabilities. In addition, amounts due to customers for contract works of MOP1,026,000 was reclassified into contract liabilities.

Meanwhile out of the contract liabilities that reclassified from trade and other payables and accruals and amounts due to customer for contract work as detailed above, balance of MOP900,000 were net off with respectively contract assets as at 1 January 2018 as the contract assets and contract liabilities relating to the same contract are presented on a net basis.

- (c) The balance represents net amount of the contract assets and liabilities with the relevant contracts as at 1 January 2018.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 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 MOP'000	Adjustments MOP'000	Amounts without application of HKFRS 15 MOP'000
Current assets				
Other receivables, deposits and prepayments	(a)	46,794	30,409	77,203
Contract assets	(c)	85,722*	(85,722)	–
Amounts due from customers for contract work	(a)	–	57,967	57,967
Current liabilities				
Trade and other payables and accruals	(b)	40,489	1,100	41,589
Amounts due to customers for contract work	(b)	–	1,554	1,554

Impact on the consolidated statement of cash flows

	<i>Notes</i>	As reported MOP'000	Adjustments MOP'000	Amounts without application of HKFRS 15 MOP'000
Operating activities				
Increase in other receivables, deposits and prepayments	(a)	(31,325)	(3,536)	(34,861)
Decrease in contract assets	(a), (b), (c)	11,954*	(11,954)	–
Decrease in contract liabilities	(a), (b), (c)	(608)	608	–
Decrease in amounts due from/to customers for contract work, net	(a) & (b)	–	14,264	14,264
Decrease in trade and other payables and accruals	(b)	(27,284)	618	(26,666)

* This amount includes the adjustment of impairment loss allowance of contract assets of MOP504,000 upon the application of HKFRS 9.

Notes:

- (a) Upon the application of HKFRS 15, retention receivables of MOP30,409,000 arising from 47 contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from other receivables, deposits and prepayments to contract assets. In addition, amounts due from customers for contract works of MOP57,967,000 was reclassified into contract assets.

- (b) Upon the application of HKFRS 15, advances from customers of MOP1,100,000 in respect of contracts for building and ancillary services previously included in trade and other payables and accruals were reclassified into contract liabilities. In addition, amounts due to customers for contract works of MOP1,554,000 was reclassified into contract liabilities. The contract assets and contract liabilities relating to same contract are presented on a net basis, according the contract liabilities with an aggregated amount of MOP2,654,000 were net off with the respective contract assets as at 31 December 2018.
- (c) The balance represents net amount of the contract assets with the relevant contracts as at 31 December 2018.

HKFRS 9 “Financial Instruments”

In the current year, the Group has applied HKFRS 9 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 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 under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated 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”.

Summary of effects arising from initial application of HKFRS 9

Impairment under ECL model

As at 1 January 2018, additional credit loss allowance of MOP75,000 has been recognised against accumulated profits. The additional loss allowance is charged against the respective asset.

The table below illustrates the lifetime ECL of trade receivables and contract assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Trade receivables MOP'000	Contract assets MOP'000	Accumulated profits MOP'000
Closing balance at 31 December 2017			
– HKAS 39	31,041	98,180	93,407
Effect arising from initial application of HKFRS 9: Remeasurement			
– impairment under ECL model	(62)	(13)	(75)
Opening balance at 1 January 2018	<u>30,979</u>	<u>98,167</u>	<u>93,332</u>

The Group applies simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics. As at 1 January 2018, the impairment loss allowance of trade receivables and contract assets of MOP75,000 has been recognised against accumulated profits.

Loss allowances for other financial assets at amortised cost, which mainly comprise of other receivables and deposits, pledged bank deposits and bank balances, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

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 show the adjustments recognised for each individual line item.

	At 31 December 2017 MOP'000 (Audited)	HKFRS 15 MOP'000	HKFRS 9 MOP'000	At 1 January 2018 MOP'000 (Restated)
Current assets				
Trade receivables	31,041	–	(62)	30,979
Other receivables, deposits and prepayments	42,298	(26,873)	–	15,425
Contract assets	–	98,180	(13)	98,167
Amounts due from customers for contract work	72,207	(72,207)	–	–
Current liabilities				
Trade and other payables and accruals	68,255	(482)	–	67,773
Contract liabilities	–	608	–	608
Amounts due to customers for contract work	1,026	(1,026)	–	–
Capital and reserves				
Accumulated profits	93,407	–	(75)	93,332

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 ³
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle 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 ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹

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

² Effective for annual periods beginning on or after a date to be determined

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

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

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 operating lease payments 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.

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 MOP2,298,000. 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 MOP641,000 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elects 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 elects the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for building and ancillary services and emergency repair services rendered by the Group to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these construction services based on the stage of completion of the contract using output method.

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”), being the management of the Group, in order for the CODM to allocate resources and to assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 “Operating Segments” are as follows:

- (a) Building and ancillary services; and

(b) Emergency repair services.

The CODM makes decisions according to the operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Segment revenue and profit

Year ended 31 December 2018

	Building and ancillary services <i>MOP'000</i>	Emergency repair services <i>MOP'000</i>	Total <i>MOP'000</i>
Segment revenue	246,775	13,854	260,629
Segment results	31,280	5,064	36,344
Other income, gains and losses, net			1,139
Administrative expenses			(17,597)
Finance costs			(110)
Profit before taxation			19,776

Year ended 31 December 2017

	Building and ancillary services <i>MOP'000</i>	Emergency repair services <i>MOP'000</i>	Total <i>MOP'000</i>
Segment revenue	233,585	11,847	245,432
Segment results	33,094	5,354	38,448
Other income, gains and losses, net			239
Administrative expenses			(12,575)
Finance costs			(151)
Listing expenses			(16,122)
Profit before taxation			9,839

Segment results mainly represented profit earned by each segment, excluding (i) other income, gains and losses, net; (ii) administrative expenses; (iii) finance costs and; (iv) listing expenses.

5. OTHER INCOME, GAINS AND LOSSES, NET

	2018 MOP'000	2017 MOP'000
Interest income	317	13
Gain on disposal of an associate	–	15
Loss on disposal of property, plant and equipment	(3)	(35)
Sales of leftover piles	775	–
Others	50	246
	<u>1,139</u>	<u>239</u>

6. FINANCE COSTS

	2018 MOP'000	2017 MOP'000
Interests on bank borrowings	<u>110</u>	<u>151</u>

7. PROFIT BEFORE TAXATION

	2018 MOP'000	2017 MOP'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration – audit services	1,300	1,200
Depreciation of property, plant and equipment	4,076	2,983
Staff costs (including directors' emoluments):		
Salaries and other benefits	41,039	41,638
Retirement benefits scheme contributions	167	143
	41,206	41,781
Less: staff costs capitalised as direct costs	(34,202)	(35,174)
	<u>7,004</u>	<u>6,607</u>
Minimum lease payments under operating leases in respect of		
– land and building (included in administrative expenses)	2,330	1,997
– site equipment (included in direct costs)	2,603	2,039
	<u>4,933</u>	<u>4,036</u>

8. INCOME TAX EXPENSE

	2018 <i>MOP'000</i>	2017 <i>MOP'000</i>
Macau Complementary Tax:		
Current tax	3,346	3,777
Overprovision in prior years	(405)	–
	<u>2,941</u>	<u>3,777</u>

Macau Complementary Tax is calculated at 12% of the estimated assessable profits exceeding MOP600,000 for both years.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profits for both years.

9. DIVIDENDS

No dividend was paid or declared during the year ended 31 December 2017 and 2018, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit for the year attributable to owners of the Company of approximately MOP16,835,000 (2017: approximately MOP6,062,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2018 of approximately 1,000,000,000 (2017: 776,219,000) on the assumption that the reorganisation and the capitalisation issue had been effective on 1 January 2017. No diluted earnings per share is presented for both years as there was no potential ordinary share outstanding.

11. TRADE RECEIVABLES

The Group grants credit terms of 30 – 60 days to its customers from the date of invoices on progress payments of contract works. An aging analysis of the trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	2018 <i>MOP'000</i>	2017 <i>MOP'000</i>
0 – 30 days	8,010	18,338
31 – 60 days	–	3,200
61 – 90 days	1,097	1,553
91 – 365 days	1,415	7,235
Over 365 days	911	715
	<u>11,433</u>	<u>31,041</u>
Less: Impairment loss allowance	(82)	–
	<u>11,351</u>	<u>31,041</u>

12. CONTRACT ASSETS

	31 December 2018 <i>MOP'000</i>	1 January 2018* <i>MOP'000</i>
Contract assets		
Building and ancillary services	86,226	98,180
Less: Impairment loss allowance	<u>(504)</u>	<u>(13)</u>
	<u>85,722</u>	<u>98,167</u>

* The amounts in this column are after the adjustments from the application of HKFRS 9 and HKFRS 15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

13. TRADE AND OTHER PAYABLES AND ACCRUALS

	2018 <i>MOP'000</i>	2017 <i>MOP'000</i>
Trade payables	15,388	47,824
Salaries payable	4,110	7,316
Retention payables	13,918	10,301
Accruals and other payables	<u>7,073</u>	<u>2,814</u>
	<u>40,489</u>	<u>68,255</u>

The credit period granted to the Group by suppliers/subcontractors normally ranges from 0 to 60 days. The following is an aging analysis of trade payables based on the invoice date at the end of the reporting period:

	2018 <i>MOP'000</i>	2017 <i>MOP'000</i>
0 to 30 days	12,757	43,727
31 – 60 days	398	864
61 – 90 days	977	596
91 – 180 days	195	796
181 – 365 days	112	81
Over 365 days	<u>949</u>	<u>1,760</u>
	<u>15,388</u>	<u>47,824</u>

Retention payables to subcontractors are interest-free and payable at the end of the defect liability period of individual contracts (i.e. one year after completion of respective contract). All retention payables are expected to be settled within one year based on the expiry date of the defect liability period.

14. BANK BORROWINGS

	2018 <i>MOP'000</i>	2017 <i>MOP'000</i>
Carrying amount repayable based on schedule repayment terms:		
– Within one year	640	1,070
– More than one year but not exceeding two years	420	641
– More than two years but not exceeding five years	1,460	1,321
– More than five years	<u>–</u>	<u>520</u>
	2,520	3,552
Less: Amounts due within one year under current liabilities	<u>(640)</u>	<u>(1,070)</u>
Amounts show under non-current liabilities	<u><u>1,880</u></u>	<u><u>2,482</u></u>

The bank borrowings are at floating rates which carry interest at MOP best lending rate plus/minus a spread. The effective interest rate on the Group's bank borrowings was 4.55% (2017: 4.88%) per annum as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

On 15 December 2017 (the “Listing Date”), the shares of the Company (the “Shares”) were listed (the “Listing”) on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Group is an integrated construction contractor which provides (i) building and ancillary services; and (ii) emergency repair services. The services are required in various building and construction projects in relation to hotel and casino resorts, infrastructures of electricity and water supply, and public amenities and utilities (such as carriageways, footpaths, drains and sewers).

The Group’s revenue was derived from Macau and the Group was engaged in projects in both private and public sectors. Public sector projects refer to projects of which the project employer is the Macau Government, while private sector projects refer to projects that are not within the public sector. The Group’s customers mainly included (i) hotel and casino owners or their main contractors; (ii) electricity and water utility companies; and (iii) the Macau Government.

During the year ended 31 December 2018, 33 building and ancillary services projects with an aggregate contract sum of MOP383.7 million were awarded. The Group had completed 43 building and ancillary services projects. As at 31 December 2018, the Group’s backlog included 17 building and ancillary services projects, with an aggregate outstanding contract sum of MOP271.7 million.

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of the Group’s revenue by business segments during the years ended 31 December 2018 and 2017:

	Year ended 31 December			
	2018		2017	
	<i>MOP’000</i>	<i>%</i>	<i>MOP’000</i>	<i>%</i>
Building and ancillary services	246,775	94.7	233,585	95.2
Emergency repair services	13,854	5.3	11,847	4.8
Total	<u>260,629</u>	<u>100.0</u>	<u>245,432</u>	<u>100.0</u>

During the year ended 31 December 2018, the Group's revenue increased by approximately MOP15.2 million or 6.2%. The increase was mainly attributable to an increase in building and ancillary services revenue of approximately MOP13.2 million or 5.7%, a majority of which were derived from foundation associated works of building and ancillary services projects.

Gross Profit and Gross Profit Margin

The Group's gross profit margin dropped to approximately 14.1% for the year ended 31 December 2018 from approximately 15.7% for the year ended 31 December 2017, as manifested by a decrease in the Group's gross profit by approximately MOP1.5 million or 3.9% to approximately MOP36.9 million for the year ended 31 December 2018 from approximately MOP38.4 million for the year ended 31 December 2017.

The drop in the gross profit margin was mainly attributable to a higher proportion of foundation associated works being undertaken during the year ended 31 December 2018. Generally speaking, the foundation associated works of building and ancillary services have a lower profit margin relative to other types of building and ancillary services. During the year ended 31 December 2018, the foundation associated works accounted for 65.1% of the total gross profit for this period, compared with only 50.7% for the year ended 31 December 2017.

Other Income, Gains and Losses, Net

The Group's other income increased by approximately MOP900,000 or 376.6% from approximately MOP239,000 for the year ended 31 December 2017 to approximately MOP1,139,000 for the year ended 31 December 2018. Such increase was mainly attributable to (i) the increase in sales of leftover piles from nil for the year ended 31 December 2017 to approximately MOP775,000 for the year ended 31 December 2018 and; (ii) the increase in interest income from approximately MOP13,000 for the year ended 31 December 2017 to approximately MOP317,000 for the year ended 31 December 2018.

Impairment Loss Allowance of Trade Receivables and Contract Assets

The Group's impairment loss allowance of trade receivables and contract assets was approximately MOP511,000 for the year ended 31 December 2018. The Group applied simplified approach to measure ECL which used a lifetime ECL for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics. As the date of initial application of HKFRS i.e. 1 January 2018, the Group's impairment loss allowance of trade receivable and contract assets was MOP75,000.

Administrative Expenses

The Group's administrative expenses increased by approximately MOP5.0 million or 39.7% from approximately MOP12.6 million for the year ended 31 December 2017 to approximately MOP17.6 million for the year ended 31 December 2018. Such increase was mainly attributable to (i) the increase in the expense to maintain the listing status of the Company, e.g. share registration services, financial and compliance advisory services, financial printing etc. of approximately MOP3.5 million; (ii) the increase in staff costs (including Directors' emoluments) of approximately MOP1.0 million due to the increase in salary of employees and the increase in Directors' emoluments; (iii) the increase in the charitable donation of approximately MOP0.3 million; and (iv) the increase in rental expenses of approximately MOP0.3 million.

Listing Expenses

The Group did not incur any listing expenses for the year ended 31 December 2018 while the Group incurred listing expenses of approximately MOP16.1 million for the year ended 31 December 2017.

Finance Costs

The Group's finance costs decreased by approximately MOP41,000 or 27.2% from approximately MOP151,000 for the year ended 31 December 2017 to approximately MOP110,000 for the year ended 31 December 2018. Such decrease was mainly attributable to the decrease in bank borrowings of approximately MOP1.1 million during the year ended 31 December 2018, which in turn decreased the interest expenses incurred.

Income Tax Expense

The Group's income tax expense decreased by approximately MOP0.9 million or 23.7% from approximately MOP3.8 million for the year ended 31 December 2017 to approximately MOP2.9 million for the year ended 31 December 2018. The Group's effective tax rate decreased to approximately 15.0% for the year ended 31 December 2018. The relatively high tax effective tax rate in 2017 was mainly attributable to the non-tax deductible professional services fees relating to the Listing incurred in 2017.

Profit for the Year

The Group's profit for the year increased by approximately MOP10.7 million or 175.4% from approximately MOP6.1 million for the year ended 31 December 2017 to approximately MOP16.8 million for the year ended 31 December 2018.

Other Comprehensive Expense for the Year

The Group's other comprehensive expense for the year ended 31 December 2018 was MOP 546,000. It was mainly attributable to fair value loss on investment in an equity instrument at fair value through other comprehensive income. The Group did not incur any other comprehensive expense for the year ended 31 December 2017.

Profit and Total Comprehensive Income for the Year

The Group's profit and total comprehensive income for the year increased by approximately MOP10.2 million or 167.2% from approximately MOP6.1 million for the year ended 31 December 2017 to approximately MOP16.3 million for the year ended 31 December 2018, which was mainly attributable to the combined effect of the aforementioned items.

Basic Earnings per Share

The Company's basic earnings per Share for the year ended 31 December 2018 was approximately MOP1.68 cents (2017: MOP0.78 cents), representing an increase of approximately MOP0.90 cents or 115.4% which is in line with the profit for the year attributable to owners of the Company when compared to the year ended 31 December 2017.

Final Dividend

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

CORPORATE FINANCE AND RISK MANAGEMENT

Liquidity and Financial Resources and Capital Structure

The Group adopts a prudent approach in cash management to minimise financial and operational risks. The Group's operations mainly rely on internally generated cash flows and bank borrowings.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

As at 31 December 2018, the Group had bank balances and cash of approximately MOP65.8 million (2017: MOP120.6 million) and had no bank overdrafts (2017: Nil).

As at 31 December 2018, the Group had an aggregate of pledged bank deposits of approximately MOP32.3 million (2017: MOP0.2 million) that are used to secure banking facilities.

As at 31 December 2018, bank borrowings amounted to approximately MOP2.5 million (2017: MOP3.6 million) of which approximately MOP0.6 million, MOP0.4 million, MOP1.5 million, and nil (2017: MOP1.1 million, MOP0.6 million, MOP1.3 million, and MOP0.6 million) will mature within one year, one year to two years, two years to five years and more than five years, respectively.

Current ratio increased from 3.3 times as at 31 December 2017 to 4.7 times as at 31 December 2018. It was mainly due to the greater decrease in current liabilities.

Gearing ratio is calculated based on debts including payables incurred not in the ordinary course of business divided by the total equity as at the reporting dates. Gearing ratio decreased from 1.8% as at 31 December 2017 to 1.2% as at 31 December 2018. It was mainly due to the decrease in bank borrowings and increase in total equity.

As at 31 December 2018, the share capital and equity attributable to owners of the Company amounted to approximately MOP10.3 million and approximately MOP213.7 million, respectively (2017: MOP10.3million and MOP197.5 million, respectively).

Operating Lease Commitments and Capital Commitments

At as 31 December 2018, the Group had operating lease commitments of approximately MOP2.3 million (2017: MOP2.6 million).

At as 31 December 2018, the Group had no capital commitments (2017: Nil).

Contingent Liabilities

As at 31 December 2018, performance guarantees of approximately MOP43.2 million (2017: MOP36.9 million) were given by a bank 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 their customers. The Group has contingent liabilities to indemnify the bank for any claims from customers under the guarantees due to the failure of the Group's performance. The performance guarantees will be released upon completion of the contract works. At the end of the reporting period, the management of the Group does not consider it is probable that a claim will be made against the Group.

Exposure to Fluctuations in Exchange Rates and Interest Rates and Corresponding Hedging Arrangements

The Group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies. The Group is exposed to currency risk primarily through sales proceeds received from customers and the proceeds from issue of Shares upon share offer that are denominated in a currency other than the Group entities' functional currency. The currencies giving rise to this risk are primarily Hong Kong dollar.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest Rate Risk

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing market interest rates arising from the Group's pledged bank deposits and bank balances and MOP best lending rate arising from the Group's variable-rate bank borrowings.

Credit Exposure

The Group's credit risk is primarily attributable to trade receivables, contract assets, other receivables and deposits, pledged bank deposits and bank balances as at 31 December 2018 and 2017.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of the reporting period.

Management of the Group adopted a policy on providing credit facilities to new customers. A credit investigation of the customers or the ultimate customers if those contracts allow the Group to obtain payment directly from the ultimate customers under certain circumstances, including assess to financial information, advice from business partners in relation to potential customers and credit search, would be required to be launched. The level of credit granted must not exceed a predetermined level set by the management. Credit evaluation is performed on a regular basis.

The Group has concentration of credit risks with exposure limited to certain customers. The top three debtors amounting to approximately MOP7.3 million (2017: MOP17.7 million) comprised approximately 64% (2017: 57%) of the Group's trade receivables as at 31 December 2018. Management of the Group closely monitors the subsequent settlement of the customers. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The credit risk for pledged bank deposits and bank balances is considered not material as such amounts are placed in banks with good reputations.

EMPLOYEES

The Group had 79 full-time employees as at 31 December 2018 (2017: 87).

The Group offers remuneration packages that includes salary, discretionary bonuses and other cash subsidies. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. The Group has designed an annual review system to assess the performance of our employees, which forms the basis of the decisions with respect to salary raises, bonuses and promotions.

The Group's gross staff costs from operations (including the Director's emoluments) was approximately MOP41.2 million for the year ended 31 December 2018 (2017: MOP41.8 million).

The Company adopted a share option scheme so that the Company may grant options to the eligible persons as incentives or rewards for their contributions to the Group.

USE OF PROCEEDS FROM THE SHARE OFFER

The Shares have been listed and traded on the Main Board of the Stock Exchange since 15 December 2017.

The net proceeds from the share offer (the "Share Offer") as defined in prospectus of the Company dated 30 November 2017 (the "Prospectus") amounted to approximately HK\$72.0 million (equivalent to approximately MOP74.2 million) (after deducting underwriting fees and commissions and all related expenses). Such net proceeds are intended to be applied in the same manner and the same proportion as disclosed in the Prospectus and the announcement of the Company in relation to the allotment result dated 14 December 2017. The below table sets out the proposed applications and utilised amounts of the net proceeds up to the date of this announcement.

	Net proceeds (HK\$ million)		
	Available	Utilised	Unutilised
Financing for the issue of performance guarantees for future projects	39.6	36.3	3.3
Acquisition of additional machinery and equipment	14.4	5.3	9.1
Further strengthening manpower	10.8	6.3	4.5
General working capital	7.2	7.2	-
	<u>72.0</u>	<u>55.1</u>	<u>16.9</u>

As at the date of this announcement, the unutilised net proceeds from the Share Offer were deposited in the bank accounts of the Group.

PROSPECTS AND STRATEGIES

Taking into account the redevelopment of gambling and tourism industry and supportive policies in new construction works, the Group expects that the demand in the construction industry in Macau will keep growing.

The Group's principal business objective is to further strengthen its position as an integrated construction contractor in Macau. The Group continues to achieve its business objective by expanding its scale of operation through its intended effort in actively seeking opportunities in undertaking additional building and ancillary services projects and emergency repair services projects, from both existing and potential new customers, on top of its present scale of operation and its current projects on hand.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") is scheduled to be held on Tuesday, 11 June 2019. In order to establish entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 5 June 2019 to Tuesday, 11 June 2019, both days inclusive, during which period no transfer of Shares will be registered. All transfers of Shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 4 June 2019.

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

During the year 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of this announcement.

CORPORATE GOVERNANCE CODE

During the period from the Listing Date to 31 December 2018 and up to the date of this announcement, the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) except the deviation from provision A.2.1 of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. Kong Kin I currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. Besides, with three independent non-executive Directors out of a total of five Directors in the Board, there will be sufficient independent voice within the Board to protect the interests of the Company and its shareholders as a whole. Therefore, the Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Company by the Directors. Upon specific enquiries of all Directors, each of them confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018 and up to the date of this announcement.

AUDIT COMMITTEE

The Company established the audit committee on 24 November 2017 in compliance with the CG Code. As at the date of this announcement, the audit committee consists of three independent non-executive Directors, namely, Mr. Cheung Kin Wing, Mr. Cheung Wai Lun Jacky and Mr. Zhao Zhipeng. Mr. Cheung Kin Wing is the chairman of the audit committee.

The audit committee has reviewed with the management of the Company the accounting principles and policies adopted by the Group, and the financial information of the Group and the annual results of the Company for the year ended 31 December 2018.

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 December 2018 as set out in the preliminary 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.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.kinpang.com.mo and the Stock Exchange's website at www.hkexnews.hk. The 2018 Annual Report will be despatched to shareholders and will also be published on the websites of both the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business associates and other professional parties for their support throughout the year.

By Order of the Board
Kin Pang Holdings Limited
Kong Kin I
Chairman

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises (i) Mr. Kong Kin I (Chairman and Chief Executive Officer) and Ms. Choi Fong Lan as executive Directors; and (ii) Mr. Cheung Wai Lun Jacky, Mr. Cheung Kin Wing and Mr. Zhao Zhipeng as independent non-executive Directors.