MECOM
POWER & CONSTRUCTION

澳能建設控股有限公司
MECOM Power and Construction Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1183

ANNUAL REPORT 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kuok Lam Sek *(Chairman)*
Mr. Sou Kun Tou

Independent Non-executive Directors

Ms. Chan Po Yi, Patsy
Mr. Cheung Kiu Cho, Vincent
Dr. Ngan Matthew Man Wong

AUDIT COMMITTEE

Ms. Chan Po Yi, Patsy *(Chairlady)*
Mr. Cheung Kiu Cho, Vincent
Dr. Ngan Matthew Man Wong

REMUNERATION COMMITTEE

Dr. Ngan Matthew Man Wong *(Chairman)*
Ms. Chan Po Yi, Patsy
Mr. Cheung Kiu Cho, Vincent

NOMINATION COMMITTEE

Mr. Cheung Kiu Cho, Vincent *(Chairman)*
Dr. Ngan Matthew Man Wong
Ms. Chan Po Yi, Patsy

COMPANY SECRETARY

Ms. Tam Wing Yee

AUTHORISED REPRESENTATIVES

Mr. Sou Kun Tou
Ms. Tam Wing Yee

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MACAU

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Kin Fu Kuok
No. 258 Alameda Dr. Carlos D'Assumpção
Macau

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1909-13, 19th Floor
Tai Yau Building
181 Johnston Road
Wanchai, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISERS

As to Hong Kong law:
Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to Macau law:
MdME | Lawyers | Private Notary
Avenida da Praia Grande
409 China Law Building
21/F and 23/F A–B
Macau

José Liu
Avenida da Amizade, nº 555
Landmark, 13º andar
Sala No. 1308
Macau

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
Cayman Islands

COMPLIANCE ADVISER

Innovax Capital Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Dah Sing Bank, Limited
Tai Fung Bank Limited
China Guangfa Bank Co. Ltd, Macau Branch

STOCK CODE

1183

WEBSITE

www.mecommacau.com

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of MECOM Power and Construction Limited (the "Company" or "MECOM"), I present to you the audited consolidated annual results of the Company together with its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 ("Year").

Looking back at 2018, the Macau economy was trending upward healthily. Driven by the continuous development of tourism and the city's entertainment and hospitality industries, the economy growth reached 7.6% in the first half of the Year. A number of hotels and tourist facility projects were launched under the positive atmosphere for development. In the second half of the Year, with the escalating trade disputes between China and the U.S., the economy grew notably slower. For the Year as a whole, the city's economic growth narrowed down to 4.7%. Under such backdrop, private developers were prudent in assessing the economic environment and postponed some large projects, thus leading to the slowdown in Macau's construction industry development.

However, in every crisis lies opportunities. Although the external environment has been uncertain, with the support of favourable national policies, Macau still has many strengths conducive to her development. In last October, the Hong Kong-Zhuhai-Macao Bridge which connected Macau, Hong Kong and Zhuhai was officially open to traffic, giving tourism development of the three regions a big boost. As observed, the number of visitors to Macau rose significantly. In the first week of the Chinese New Year just past, more than 1.2 million visitors arrived at the city, representing an increase of 27% year-on-year. We expect the bridge to benefit Macau's tourism industry and drive the growth of the construction industry in the three regions and the Pearl River Delta. Recently, the promulgation of the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" highlights the importance of Macau's integration into the Greater Bay Area, and positions Macau as an internationally competitive modern economic entity and a high-quality region for living, working and travelling. These favourable factors will further stimulate the demand for infrastructure construction and management.

As one of the few construction companies in Macau which are capable of handling highly challenging integrated construction engineering projects and high voltage power substation projects, the Group always keeps its eyes on the development projects in the public and private sectors, and actively bids for projects to grasp growth opportunities and pave way for future development. According to a Frost & Sullivan market research report, the total value of the civil engineering market in Macau in 2018 is estimated to reach MOP74.4 billion and will continue to grow to MOP126.0 billion in 2021. During the Year, it secured several major construction contracts of hotels and high voltage power substation. However, certain projects could not be implemented as scheduled due to incomplete administrative procedures, and the launch of several projects was also postponed by the private developer under uncertain external environment. Hence, in 2018, the Group's revenue decreased by 9.3% year-on-year to MOP597.6 million. Looking ahead, the Group remains cautiously optimistic about the integrated construction engineering market in Macau.

Regarding the private sector projects, Macau has been boosting the development of non-gaming offerings in recent years, bringing with it the construction of large hotels, entertainment projects and leisure facilities to encourage non-gaming spending among the visitors. Existing hotels and casinos are also moving ahead with their upgrade and renovation plans. In 2018 alone, the accumulated gaming revenue of Macau reached MOP302.8 billion, representing a 14% increase year-on-year. Also, the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" just promulgated by the Central Government clearly states the goal to develop Macau into a global tourism and leisure center. As such, Macau will further seize the opportunities in the Greater Bay Area to claim its place in this cluster of world-class cities.

Regarding the public sector, the Macau government has launched a number of municipal development initiatives to advance the sustainable development of the city. They included the New Town Reclamation, the building of public housing and the construction of the fourth bridge linking the Macau Peninsula and Taipa Island, a new power plant and a light rail system, which command massive public spending, but will strengthen the city's resilience and competitiveness.

The factors mentioned have braced the healthy and steady development of the construction market in Macau. MECOM, with a long history serving the Macau market, already has a number of iconic projects under its belt, shining examples of its excellent standard professional expertise and formidable project management experience. The Group is offering a high-quality one-stop solution to the customers, with two major businesses, namely structural steelworks and high voltage power substation construction work, complemented by facility management, modification and maintenance and repair engineering services. That is our unique core competitive advantage.

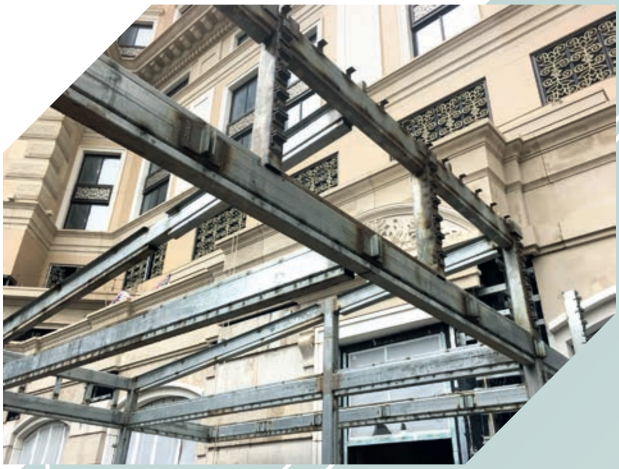
Going forward in 2019, under the impact of the Sino-US trade disputes in particular, the global economy will be ridden with uncertainties. The Group will pay close attention to the changes in the market and seize favourable market opportunities. It will also add new facilities, purchase new machines and hire skilled workers and project management personnel to bolster its professional technical capabilities. At the same time, we will maintain good relationship with the customers in public and private sectors and strengthen cooperation with business partners to realise synergies. In addition, efforts will be made by the Group to improve its internal management, enhance operational efficiency and maintain price competitiveness. Armed with excellent technological and competitive advantages, the Group will strive to stand out in the fiercely competitive market.

Last but not least, on behalf of the Board and the management of the Group, I would like to express my gratitude to all the employees for their diligence during the Year, and to our shareholders, investors, customers, suppliers and partners for their strong support. MECOM will continue to consolidate its industry leadership and push to realise sustainable growth, while generating satisfactory returns for the shareholders.

Kuok Lam Sek
Executive Director and Chairman

28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group primarily undertakes highly challenging and complex construction projects in Macau, including structural steelworks, and high voltage power substation construction projects. It also provides facilities management, alteration, and maintenance works and services. It is one of the industry leaders, ranking high in the civil engineering market and the high voltage power substation construction project market in Macau.

Looking back to 2018, the Macau economy trended up in the first half of the Year. Nevertheless, in the second half of the Year, with increasing uncertainties in the macro-economy, some large projects in Macau were postponed and thus the development of the Macau construction market slowed down. For the Year, total revenue from the Group's three business segments, namely (a) construction and fitting out works; (b) high voltage power substation construction and its system installation works, and (c) facilities management services, amounted to MOP597.6 million (2017: MOP658.7 million), representing a decrease of 9.3% year-on-year. The drop in total revenue was mainly due to the decline in revenue from the construction and fitting out works business as compared with 2017.

Gross profit for the Year was MOP110.3 million (2017: MOP127.3 million), representing a decrease of 13.4% year-on-year, and gross profit margin was 18.5% (2017: 19.3%). The narrower gross profit margin was the result of the decrease in revenue and increased construction costs during the Year. The Group recorded profit of MOP55.0 million (2017: MOP78.2 million), 29.6% lower than that of last year. Excluding the one-off listing expense of MOP14.4 million (2017: MOP13.6 million), the adjusted profit for the Year would amount to MOP69.4 million (2017: MOP91.8 million).

Segment Analysis

Construction and Fitting Out Works (accounted for 55.8% of the revenue in 2018)

Construction and fitting out works mainly include structural steelworks services, civil engineering construction services and fitting out and renovation works.

Structural steelworks services generally involve the provision of customised and target-oriented steel structure erection services including structural steelworks construction, concreting and builder works, and combination of the different services to turn out a highly efficient structure. Civil engineering construction services generally cover demolition, ground field investigation, site formation and foundation works, as well as substructures and superstructures, roads and drainage. Fitting out and renovation works generally involve provision of alteration, renovation and upgrading works of various types, including preparation of shop drawings, modification, removal and installation of equipment and general renovation works.

During the Year, revenue from the construction and fitting out works segment was MOP333.6 million, representing a decrease of 34.2% when compared with 2017, and accounting for 55.8% of the total revenue of the Group. The decrease was mainly due to the completion of some large-scale structural steelworks and civil engineering construction projects during the Year, leading to a decline in revenue recognised.

Competition was intense in the construction market in Macau during the Year. To increase its chances of winning the tenders, the Group adopted a more competitive pricing strategy and explored different options, including setting up joint venture(s) with large construction company(ies) to bid for structural steelworks and civil engineering projects. The Group and a subsidiary of a Chinese state-owned company formed a joint venture to participate in a contract of more than MOP300 million for a hotel and podium in phase II of a well-known resort in Cotai. After receiving the owner's letter of acceptance in December 2018, the joint venture has started early stage construction works on the project. The Group will continue to strike a balance between securing more projects and maintaining a reasonable gross profit margin, so as to ensure its overall growth in the long run.

BUSINESS REVIEW (Continued)

Segment Analysis (Continued)

High Voltage Power Substation Construction and its System Installation Works (accounted for 29.4% of the revenue in 2018)

The Group's high voltage power substation construction and relevant system installation works involve the provision of planning, scheduling, project management and construction services to customised high-voltage substations and complex power transmission infrastructure installed with high voltage power system.

During the Year, revenue from the segment amounted to MOP175.4 million, an increase of 91.9% compared with last year, accounting for 29.4% of the Group's total revenue. The increase was mainly attributable to the electrical and mechanical ("E&M") works undertaken by the Group and its project partner for a 110/11kV high voltage power substation in the theme park of the casino gaming operator in Macau during the Year, bringing in a substantially larger amount of revenue recognised for the Year. The said project was completed during the Year.

Facilities Management Services (accounted for 14.8% of the revenue in 2018)

The Group's facilities management services involve the provision of facilities operation and maintenance management, alteration, upgrading, maintenance works and emergency repairs of various buildings, properties and their components (especially for hotels and resorts) and high voltage power substations and relevant systems.

Revenue from the segment for the Year increased by 47.2% year-on-year to MOP88.6 million, accounting for 14.8% of the Group's total revenue. Having a proven track record in service provision, the Group was awarded an E&M maintenance services contract at electronic gaming sites during the Year. The segment has been a stable source of recurring revenue for the Group. As more companies, particularly hotel customers, are placing greater attention on the quality of various repair and management services, outstanding service providers will be presented with more business opportunities. MECOM will strive to capture those opportunities.

In 2017, the Group secured a five-year facility management services contract for the energy centres and mechanical, electrical and plumbing systems of four hotel complexes. As the mentioned facility management service contract was new to the Group and was relatively complicated, the Group deployed more human resources in the early stage to serve the customer, leading to increase in the project cost. Nonetheless, having built up a good amount of experience working on the new project type as at 31 December 2018, the Group is confident that better cost-effectiveness in the provision of similar services will be achieved going forward.

FINANCIAL REVIEW

Revenue

Our revenue decreased by MOP61.1 million, or 9.3%, from MOP658.7 million for 2017 to MOP597.6 million for 2018, which was primarily attributable to the combined effect of the following:

(i) *Construction and fitting out works*

Our revenue from construction and fitting out works decreased by MOP173.5 million, or 34.2%, from MOP507.1 million for 2017 to MOP333.6 million for 2018. Such decrease was mainly due to the fact that (i) we had substantial progress of works for some of our large-scale projects in this business stream during 2017 (which were completed in the first half of 2018); and (ii) we were only awarded with certain smaller-scale projects in this business stream during 2018.

(ii) *High voltage power substation construction and its system installation works*

Our revenue from high voltage power substation construction and its system installation works increased by MOP84.0 million, or 91.9%, from MOP91.4 million for 2017 to MOP175.4 million for 2018. Such increase was mainly due to the revenue of MOP98.9 million generated from the E&M works contract for the 110/11kV high voltage power substation of the theme park of a casino gaming operator in Macau as part of a consortium with its power projects partner in 2018.

(iii) *Facilities management services*

Our revenue from facilities management services increased by MOP28.4 million, or 47.2%, from MOP60.2 million for 2017 to MOP88.6 million for 2018. Such increase was mainly due to the commencement of certain new hotel and casino high/mid/low voltage power system facilities management and maintenance works and services in July 2017.

Cost of services

Our cost of services decreased by MOP44.1 million, or 8.3%, from MOP531.4 million for 2017 to MOP487.3 million for 2018, which was primarily in line with the decrease in our revenue, and mainly reflected by a decrease in our subcontracting costs by MOP88.6 million, or 25.5%, from MOP347.3 million for 2017 to MOP258.7 million for 2018 mainly due to more subcontracting works were used for a high-end atrium fitting out project for the world's first free-form exoskeleton skyscraper luxury hotel in 2017. The decrease was partially offset by an increase in our material costs by MOP60.9 million, or 93.4%, from MOP65.3 million for 2017 to MOP126.2 million for 2018 mainly due to an increase in costs of power systems used in the E&M works contract for the 110/11kV high voltage power substation of the theme park for 2018.

Gross profit and gross profit margin

Our gross profit decreased by 13.4% from MOP127.3 million for 2017 to MOP110.3 million for 2018, which was primarily attributable to a decrease in our revenue.

The gross margin of our construction and fitting out works increased from 21.9% for 2017 to 23.3% for 2018 primarily attributable to an increase in the variation works of a substructural steelworks construction project for a well-known hotel casino in Sé, Macau which has a higher gross margin of approximately 43.7% mainly due to the favourable rate for the variation orders.

FINANCIAL REVIEW (Continued)

Gross profit and gross profit margin (Continued)

The gross margin of our high voltage power substation construction and its system installation works increased from 8.8% for 2017 to 15.8% for 2018 primarily attributable to the increase in revenue in the Year, with a significant gross profit of MOP11.9 million generated from the provision of power systems for the E&M works contract of the 110/11kV high voltage power substation.

The gross margin of our facilities management services decreased from 13.5% for 2017 to 5.6% for 2018 primarily attributable to more repair and replacement costs incurred and more subcontracting works were used for our facilities management and maintenance works and services in 2018.

Considering that the effects of (i) the decrease in the portion of revenue and gross profit contribution from our construction and fitting out works (which had the highest gross margin among our three business streams in 2017); and (ii) the decrease in the gross margin from our facilities management services, partially offset by the increase in the gross margin of our high voltage power substation construction and its system installation works, our overall gross margin decreased from 19.3% for 2017 to 18.5% for 2018.

Other income

Our other income increased by MOP3.9 million, from MOP0.5 million for 2017 to MOP4.4 million for 2018. Other income mainly consisted of bank interest income.

Other losses

Our other losses for 2017 consisted of net foreign exchange loss.

Administrative expenses

Our administrative expenses increased by 30.8% from MOP27.5 million for 2017 to MOP35.9 million for 2018 primarily attributable to (i) an increase in our staff costs mainly due to the recognition of our Directors' emoluments of MOP9.2 million (2017: MOP4.9 million); and (ii) an increase in our legal and professional fees incurred after the listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 February 2018 (the "Listing").

Listing expenses

Listing expenses of MOP14.4 million (2017: MOP13.6 million) was charged to profit or loss for 2018.

Income tax expense

Our income tax expense increased by 10.1% from MOP8.5 million for 2017 to MOP9.3 million for 2018. In 2017, overprovision of income tax expense in prior years of MOP5.0 million was reversed.

Excluding this reversal of overprovision, current income tax expense decrease by 26.8% from MOP13.5 million for 2017 to MOP9.9 million for 2018 which was largely in line with the decrease in our profit before tax mainly due to (i) a decrease in our gross profit; and (ii) an increase in our administrative expenses as disclosed above.

FINANCIAL REVIEW (Continued)

Profit for the year

Our profit for the year decreased by 29.6% from MOP78.2 million for 2017 to MOP55.0 million for 2018 primarily attributable to the combined effect of the abovementioned items.

PRINCIPAL RISKS AND UNCERTAINTIES

The following are some principal risks and uncertainties facing the Group, which may materially and adversely affect its business, financial condition or results of operations:

Underestimation of Tender Price and Project Cost Overruns

The Group determines the tender price based on our estimation of time, resources to be deployed and costs to be incurred plus a profit margin. There is no assurance that the actual time and costs involved would not exceed our estimation. Depending on the nature and complexity of a particular project, most construction projects last for at least three to 24 months in general, and the process may be prolonged due to unforeseen factors. There is no assurance that we can estimate with absolute certainty, when we submit our tender, the amount of resources to be deployed and the total costs to be incurred.

Furthermore, construction projects are subject to certain factors that are beyond our control, including adverse weather conditions, labour shortage, variations in labour and equipment productivity, shortage and/or price fluctuations of raw materials, natural disasters, as well as unforeseen changes and developments in the project conditions. Any delay in completing the project would inevitably increase the risk of cost overruns. Should there be any cost underestimations or overruns or we fail to recover the additional costs arising from any change in work scope required by our customers, we may be affected by lower profits or even a loss despite any buffer we may have built into the contract value to safeguard against cost overruns.

Uncertain External Factors

The Group is established, and substantially all of our operations and assets are located, in Macau. Our financial condition, results of operations and prospects are dependent upon the continued availability of major construction projects in Macau which will in turn be determined by a variety of factors, including the prevailing economic, political and social conditions in Macau, the Macau government's policies on the construction industry and overall development plan of Macau, and the potential investments of property developers and land owners in Macau. These factors may affect the availability of construction projects from the public and private sectors in Macau. Should the demand for construction projects in Macau deteriorate, our business, financial conditions and results of operations would be adversely affected.

KEY PERFORMANCE INDICATORS ("KPIs") WITH THE STRATEGY OF THE GROUP

The Group sets a number of KPIs to support the delivery of its strategies with its performance, including the followings, and others in respect of environment, social and governance matters which are discussed in the Environmental, Social and Governance ("ESG") Report (the "ESG Report") on pages 18 to 28 of this annual report.

Strategy	KPIs	Performance
Maximise value for the Shareholders	Gross profit margin = 18.5% (2017: 19.3%) Return on equity = 12.2% (2017: 38.7%)	The Group managed to maintain stable and positive operation performance during the Year by effectively controlling costs and significantly enhancing the Group's management efficiency.
Improve the Group's liquidity	Net cash (used in) from operating activities = MOP(49.4) million (2017: MOP63.8 million) Bank balances and cash (including fixed deposits) = MOP315.2 million (2017: MOP165.9 million)	The Group adopts a policy of regularly monitoring the liquidity requirements and its compliance with financial covenants applicable to its credit facilities so as to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet the liquidity requirements of the Group in the short and longer term.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2018	2017
	MOP'000	MOP'000
Current assets	**581,879**	417,395
Current liabilities	**156,452**	231,093
Current ratio	**3.7**	1.8

As at 31 December 2018, the Group had net current assets of MOP425.4 million (2017: MOP186.3 million). The current ratio of the Group at 31 December 2018 was 3.7 (2017: 1.8).

Cash position and fund available

During the Year, the Group maintained a healthy liquidity position, with working capital being financed by our operating cash flows and proceeds from the Listing. As at 31 December 2018, our bank balances and cash (including fixed bank deposits) were MOP315.2 million (2017: MOP165.9 million). The unutilised credit facilities was MOP234.0 million (2017: MOP309.7 million) as at 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Gearing ratio

As at 31 December 2018, the Group had no bank borrowings (2017: Nil) and the Group's gearing ratio (calculated by dividing total debts with total equity) was zero (2017: zero).

CAPITAL STRUCTURE

As at 31 December 2018, the share capital and equity amounted to MOP12.4 million and MOP438.8 million, respectively (2017: MOP20 and MOP201.9 million, respectively).

FOREIGN EXCHANGE EXPOSURE

The Group's business transactions amounts, assets and liabilities are principally denominated in Hong Kong dollars and MOP. As at 31 December 2018, the Group had no exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 30 November 2018, the Group entered into a sale and purchase agreement to acquire an industrial unit in Macau, which will serve as a permanent base for the Group's centralised warehouse, at a consideration of HK$39.7 million (equivalent to approximately MOP40.9 million). The acquisition was completed on 30 January 2019. Please refer to the announcements of the Company dated 30 November 2018 and 5 December 2018 for details.

Save as disclosed above, the Group had no significant investments and no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Year.

Save as disclosed in the below section headed "Use of Net Proceeds from the Global Offering", the Group had no future plan for material investments or capital assets as at 31 December 2018.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company have been listed and traded on the Main Board of the Stock Exchange since 13 February 2018.

The net proceeds from the global offering (the "Global Offering") were HK$261.6 million (equivalent to approximately MOP269.4 million) after deducting underwriting fees and commissions and all related expenses. Details of the proposed applications of such net proceeds are as disclosed in "Future Plans and Use of Proceeds" of the prospectus of the Company for the Listing and subsequently revised in the announcement issued by the Company dated 28 February 2019.

The following table sets out the revised applications of the net proceeds and the actual usage up to 31 December 2018:

	Revised applications (HK$ million)	**Actual usage** (HK$ million)
Financing the issuance of performance bonds when undertaking new projects *(Note 1)*	112.4	8.6
Establishing storage facilities *(Note 2)*	44.3	41.3
Recruiting additional staff *(Note 1)*	45.2	6.4
Acquiring additional machinery	16.8	6.5
Financing the upfront costs for new projects *(Note 2)*	16.7	—
General working capital	26.2	26.2
	261.6	89.0

Notes:

1. The Group experienced delay in several new projects during the Year due to incomplete administrative procedures. Up to the date of this report, the Group utilised HK$10.6 million and HK$11.6 million of the total net proceeds for financing the issuance of performance bonds and recruiting additional staff, respectively.

2. With reference to the Company's announcement dated 28 February 2019, as the Company had already acquired an industrial unit in Macau, which will serve as a permanent base for the Group's centralised warehouse, the Board has resolved to reallocate the remaining unutilised balance of the net proceeds of approximately HK$16.7 million that was earmarked for the purpose of strengthening the Group's storage facilities for equipment and materials towards the financing of upfront costs (i.e. raw materials costs, labour costs and subcontracting costs) for new projects. Please refer to that announcement for further information.

PLEDGE OF ASSETS

As at 31 December 2018, the Group had pledged bank deposits of MOP22.6 million (2017: MOP41.1 million), that were pledged with banks as security of credit facilities.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2018. Further details of contingent liabilities are disclosed in note 29 to the consolidated financial statements.

COMMITMENTS

The contractual commitments of the Group are primarily related to the leases of its office premise and warehouses. The Group's operating lease commitments amounted to MOP215,000 (2017: MOP328,000) as at 31 December 2018.

As at 31 December 2018, the Group had MOP34,835,000 (2017: Nil) capital commitments in respect of the acquisition of property, plant and equipment.

EMPLOYEES AND REMUNERATION POLICY

The Group entered into separate labour contracts with its employees in accordance with the applicable labour laws of Hong Kong and Macau. The remuneration package offered to employees generally includes salaries, allowances, benefits-in-kind, fringe benefits including medical insurance and contributions to pension funds and bonus. In general, the Group determines salaries of its employees based on each employee's qualification, position and seniority.

As at 31 December 2018, the Group has 271 (2017: 541) employees in Hong Kong and Macau, comprising 79 Macau residents and 192 non-Macau residents (2017: 115 Macau residents and 426 non-Macau residents). As a main contractor for some of the projects we undertake, the Group apply for work permits for our non-Macau resident workers on a project-by-project basis. During the year, several large-scale projects were completed and thus a number of permits for hiring non-resident were not renewed upon expiry.

The Company has adopted a share option scheme (the "Share Option Scheme") on 23 January 2018, which was effective upon the Listing. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions that the eligible participants had or may have made to the Group. During the period from 13 February 2018 (the "Listing Date") to 31 December 2018 (the "Relevant Period"), 1,900,000 options were granted to the eligible participants pursuant to the Share Option Scheme. Details of such grant of options are set out in the Company's announcement dated 3 April 2018. As at 31 December 2018, none of the options granted had been exercised or lapsed.

PROSPECTS

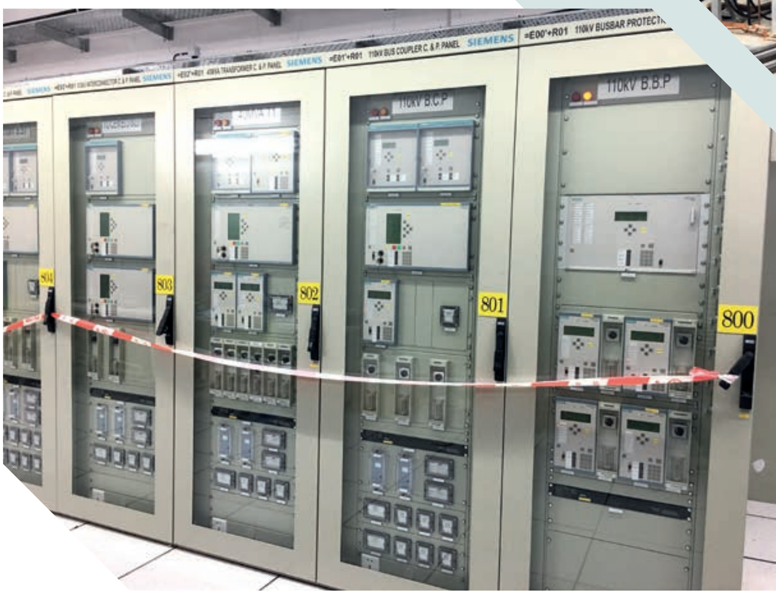
Looking ahead, it is expected that the private and public sectors in Macau will continue to roll out different development projects. The Macau government is pushing forward with its economic diversification strategy, with plans to turn Macau into a world centre of tourism and leisure and enhance the carrying capacity of key tourist attractions. After the Hong Kong-Zhuhai-Macao Bridge was officially in operation, the number of visitors to Macau has been increasing significantly. In addition, the Macau government is participating at full strength in its integration into the Guangdong-Hong Kong-Macao Greater Bay Area and working in line with the Central Government's development planning which will fuel demand for infrastructure, power station and facilities management. The Group remains cautiously optimistic about the development of the Macau integrated construction market.

The Group has secured a number of projects, including the early stage construction works of a more than MOP300 million contract for foundation works of a hotel and podium in a large-scale entertainment complex, which was awarded to a joint venture formed by the Group and a state-owned construction enterprise, construction works of a high voltage power substation for Macau's light rail transit system and an E&M maintenance project for electronic gaming sites. These projects are expected to bring significant contribution to the Group's operational performance in the future.

PROSPECTS (Continued)

Boasting prolific professional expertise and experience, as well as in-depth understanding of and leadership in the Macau market, the Group is well poised to respond to market changes, continue to bid for and take on more large-scale projects in Macau. It will also join hands with strong partners at opportune time to participate in projects. Furthermore, the Group will look beyond the Macau hotel construction market and strive to expand its business to construction of other facilities, such as green energy projects and photovoltaic systems, and explore new business opportunities along the Belt and Road and the Greater Bay Area so as to capture the abundant opportunities in the market to broaden its revenue stream and enlarge market share.

As for internal management, the Group will continue to enhance its operational efficiency and maintain price competitiveness. It will implement stringent costs control to ensure projects are completed and will operate smoothly. The Group firmly believes, with determination to triumph over challenges and work hard, it will be able to continue to develop and thrive.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING PERIOD AND FRAMEWORK

This ESG Report summarises the ESG policies, initiatives and performance of the Group as well as demonstrates its commitment to sustainability for the year ended 31 December 2018. It is prepared in accordance with ESG Reporting Guide ("Reporting Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

SCOPE OF REPORTING

The ESG Report covers the Group's businesses and operations of investment holdings, construction works and civil engineering, over which it has direct management control, unless otherwise specified.

The ESG Report is organised into two sections, focusing on environment and social aspects respectively. Information related to the Group's corporate governance practices can be found in the Corporate Governance Report on pages 32 to 44.

APPROACH TO ESG AND REPORTING

As a listed and locally renowned corporation, the Company recognises the importance of operating businesses in a sustainable way.

The Group's ESG approach is to factor the concept of sustainability into our business operations with a view to creating long-term value for customers, employees, business partners, shareholders, investors and the wider community. The Board oversees the Group's overall ESG direction. A cross-departmental ESG working group is responsible for the implementation of ESG practices and control systems in the Group's operations and business. The ESG working group comprises members designated by the management team spanning across administration department, accounting department, human resource department, company secretarial department, building cost and contract department, and construction management department. ESG performance is measured and reviewed as well as reported to the management team who will then confirm to the Board through the Audit Committee whether appropriate and effective ESG risk management and internal control systems are in place.

As in the previous reporting year, an independent consultant has been retained to provide reporting advisory services to the Company and to assist with the Company's compilation of the ESG Report in accordance with the requirements of the Reporting Guide. For the purpose of meeting the said requirements, the ESG working group continues to identify and assess material ESG aspects of the Group's operations.

STAKEHOLDER ENGAGEMENT

To better understand stakeholders' concerns and expectations, the Group engages its key stakeholders, including employees, shareholders, investors, investees, tenants, customers, suppliers, government bodies as well as local communities, from time to time through various channels, such as meetings, surveys, e-communications platforms, public events and publications. The Group continues to enhance its performance, deliver products and services that address stakeholders' needs and also creates greater value for the wider community on a continuous basis.

SUSTAINABILITY GOVERNANCE

An information and data collection template formulated based on the Company's assessed material ESG aspects is adopted and used for collection of ESG information and data from relevant departments and business units of the Group. The ESG Report is prepared based on the information and data collected. The ESG Report has been reviewed by the independent consultant which confirms that disclosures made by the Company in the ESG Report meets with the requirements of the Reporting Guide. The management confirms that appropriate and effective ESG risk management and internal control systems are in place.

MATERIALITY ASSESSMENT

Based on the ESG aspects set out in the Reporting Guide, feedback was obtained from stakeholders for identifying and determining the material ESG aspects to be covered in this ESG Report. The results are shown in the table below, together with the aspects of the Reporting Guide to which they relate:

ESG aspects set out in the Listing Rules		Material ESG issues to the Group
A.	**Environmental**	
A1	Emissions	• Air and Greenhouse Gases Emissions • Waste Management
A2	Use of Resources[1]	• Energy Consumption and Efficiency
A3	The Environment and Natural Resources	• Noise Control • Environmental Management System
B.	**Social**	
B1	Employment	• Human Resources Management
B2	Health and Safety	• Workplace Health and Safety
B3	Development and Training	• Employee Development and Training
B4	Labour Standards	• Prohibition of Child Labour and Forced Labour
B5	Supply Chain Management	• Responsible Supply Chain Selection and Management
B6	Product Responsibility	• Product and Service Quality Management
B7	Anti-corruption	• Preventing Bribery and Corruption
B8	Community Investment	• Contribution to Society

1 Due to our business nature as an engineering service provider, our operation does not involve any significant consumption of water and packaging materials, therefore the relevant disclosures are not applicable.

A. ENVIRONMENTAL

The Group strives to minimise the environmental risks and impact associated with the Group's operations. The Group established an "Environmental and Occupational Health and Safety Manual" (the "Manual") for compliance with the International Organization for Standardization ("ISO") 14001:2015 environmental management system and Occupational Health and Safety Assessment Series ("OHSAS") 18001:2007. With the implementation of the Manual, we aim to improve our environmental performances at both our offices and sites, and to promote awareness among our employees and contractors, in key issues including greenhouse gases ("GHG") emissions, energy consumption and waste disposal, air quality and noise.

The management of the Group is responsible for monitoring the compliance of relevant local law and regulations as well as international standards, including but not limited to the Environmental Law (Decree No. 2/91/M), Water Supply and Drainage Regulation (Decree No. 46/96/M), Prevention and Control on Environmental Noise (Decree No. 8/2018) and relevant regulations as set out by Macao Special Administrative Region ("SAR").

During the Year, the Group has not identified any material non-compliance with environment-related laws and regulations in Macao SAR.

Air and Greenhouse Gases Emissions

The major source of our emissions is the indirect greenhouse gases emissions generated from our electricity consumption in offices. The total indirect GHG[2] emissions and intensity for this Year were 6.29 tonnes $CO2_e$ and 0.03 tonnes $CO2_e$ per square foot area respectively. There were no significant air emissions generated directly by the Group during the Year, since the services provided by the Group were mainly consulting and project management in nature, and the actual engineering works are carried out by subcontractors.

Despite the fact that we do not generate significant air emissions directly, we fulfil our environmental responsibility by actively monitoring the environmental performance of our subcontractors. The Group performs regular carbon reviews and requires that all construction materials in transit to be covered throughout the transportation process to avoid the spreading of dusts and particles. Additionally, the Group encourages our subcontractors to use low-Sulphur diesel for vehicles and to conduct regular inspection and maintenance to ensure the emission level meets the regulatory standards. The Group is seeking for and will use a more environmental-friendly equipment to minimise emission to a lower level in the future.

The Group advocates the avoidance of ozone depleting refrigerants such as Hydro-chlorofluorocarbons (HCFCs) in our projects, and promote the use of environmentally friendly ones such as Chlorofluorocarbon (CFC). Also, the purchase of refrigerants should only be made when necessary to prevent leakage and pollution at construction sites due to the excessive chemical storage.

Moreover, for projects involving asbestos, we require our subcontractors to assign only workers with relevant qualifications to perform the contracted works, and they should be supervised by a consultant registered with Environment Protection Department.

We have also undertaken a series of measures to control the indirect GHG emissions. For details, please refer to section "Energy Consumption and Efficiency" below.

2 Calculation of total GHG emission is based on the HKEx ESG Guideline Appendix 2: Reporting Guidance on Environmental KPIs. Emission factor for electricity is based on the "Power Station Emission" data from CEM official website.

A. ENVIRONMENTAL (Continued)

Waste Management

Paper has been identified as a major source of wastes in our operation with a total consumption of 5.66 tonnes during the Year. For waste reduction and operation efficiency purposes, the Group is implementing various paperless measures such as the use of electronic communications, electronic file storage and sharing; and employees are encouraged to carry out paper saving office practices such as duplex printing and copying, and to use recycling paper for printing internal documents to minimise the use of paper.

During the Year, there was no hazardous waste produced directly by the Group. However, the Group strives to avoid overstocking of materials through effective inventory planning and construction site management. Materials such as timber and rubble, as well as steel and metal, are segregated for recycling. We also strive to maintain strict control on any potential hazardous waste generated by our subcontractors. The Group has established guidelines to require our subcontractors to implement sound waste management mechanism and measures. For instance, all wastes generated on site are required to be packed, labelled and stored securely in a proper manner especially for chemical wastes. A licensed collector should be hired by the responsible subcontractors to handle and dispose of such wastes to designated sites. Records should also be maintained for inspections internally as well as by the Environmental Protection Bureau.

Energy Consumption and Efficiency

The Group adopts resource efficiency and eco-friendly measures and is committed to optimising the use of resources in its office and construction sites. During the Year, the amount and intensity of electricity consumed directly by the Group were 24,400 kWh and 111.26 kWh per square foot of office area respectively.

To control the electricity consumption as well as the corresponding GHG emissions, the Group has established and implemented the following energy-saving principles and initiatives during the Year:

- Eliminate unnecessary energy consumption by switching off idle office equipment, lighting and air-conditioning;
- Use energy efficient appliances in our offices, such as LED lightings and electronic devices with Grade 1 Energy Label (i.e. most energy efficient);
- Raise awareness among employees by regular training and communications on best energy saving practices; and
- Incorporate energy saving behaviors into daily business practices.

In addition to managing energy consumption, the Group is committed to promoting awareness of water conservation amongst its staffs by displaying labels to remind them to avoid unnecessary resource consumption.

Besides proper controlling the electricity consumption within the Group, we aim to introduce energy and water-efficient systems to our clients such as energy friendly motors and multi-speed fans for ventilation systems, water-cooled heat rejection systems, and condensate water collection system, in order to contribute to the global effort of mitigating climate change.

A. ENVIRONMENTAL (Continued)

Noise Control

The Group is aware of the noise issues induced due to works performed by subcontractors at construction sites with heavy mechanical equipment involved in some projects. Therefore, we require our subcontractors to strictly observe all relevant local laws and regulations including the Prevention and Control on Environmental Noise.

Various measures implemented at different construction sites include the use of noise enclosures for piling rigs, weekly dust inspections of designated dust emission sources during periods of construction, and regular pH tests of waste water quality. Only materials or equipment that have the least emissions and noise are allowed to be used and such equipment can only be operated within restricted hours to minimise nuisance to the surrounding environment and residents. We also conduct necessary testing and measures before commencement of works to ensure that the noise generated will be on an acceptable level. Close monitoring of our subcontractors will be in place to check whether there is any potential violation of local regulations.

Environmental Management System

The Group regularly performs environmental assessments to identify potential environmental risks in workplace as well as the surrounding areas to ensure that the relevant statutory requirements, contractual obligations, and the Group's commitment are met for all our business activities.

In addition, the Group has established an ISO 14001:2015 accredited environmental management system with a purpose to minimise the environmental impact associated with our business. The key features are summarised as below:

- Identify and assess environmental risks as well as relevant legal requirements on an ongoing basis;
- Engage major stakeholders such as employees and subcontractors during the risk assessment process, and jointly develop appropriate mitigation plans;
- Establish measurable and practicable environmental performance objectives and targets, and to evaluate the effectiveness of controls regularly;
- Ensure the availability of resources, and define roles and responsibilities to facilitate effective environmental performance management;
- Investigate and document environmental incidents properly in accordance with relevant legislations and standards, and identify preventive and corrective measures; and
- Perform management review of the environmental management system to assess its adequacy and effectiveness, and identify opportunities for improvement.

B. SOCIAL

Equal Opportunities

The Group believes that treating our employees with fairness and respect is one of the key factors to attract and retain talents.

Providing equal employment opportunities and promoting the value of diversity have been and will always be a fundamental principle of the Group. Abiding by the Anti-Discrimination Law of Macao SAR, the Group forbids any form of discrimination or harassment within our workplace and strives to treat all employees with dignity and respect.

All decisions regarding recruitment, termination, training, remuneration, promotion of employees should be based on personal capabilities and qualifications without any sort of discrimination on race, skin color, religion, nationality, gender, age, sexual orientation, disability or other characteristics as protected by law.

During the Year, we are not aware of any case of material non-compliance with employment and labour-related laws and regulations in Macao SAR.

Recruitment and Termination

Moreover, the Group has established a structured recruitment and termination process. Qualified candidates are selected and employed according to pre-set criteria for fair assessment with the consideration of their interview performance, relevant experience, and academic and professional qualifications. Also, in order to protect our employees from unreasonable termination, discipline and discharge procedures have been developed and inappropriate behaviors leading to disciplinary actions or termination has been specified in the Employee Handbook distributed to all employees.

Promotion, Remuneration and Working Conditions

The Group has established a comprehensive evaluation mechanism to assess the performance of employees in a fair manner for promotion and remuneration. Supervisors are responsible for carrying out performance analysis of their subordinates based on their goal achievements, strengths and development opportunities.

In addition to market practices and business performance of the Group, individual performances are also taken into account when determining respective remuneration packages, in order to fairly reward the contributions of our employees on the Group's success as well as to attract and retain qualified talents. Their wages and benefits are also regularly reviewed to ensure the remuneration packages are competitive and in compliance with applicable laws and regulations.

On the other hand, the Group encourages work-life balance for our employees and thus we are committed to the provision of fair and reasonable working hours, work allocation and arrangements. They are also entitled to annual leave, sick leave, maternity and paternity leave, as well as rest days in accordance with the Employment and Labour Law. Group-subsidised staff gatherings such as luncheons and annual dinners are also organised to enhance staff communication and morale.

B. SOCIAL (Continued)

Occupational Health and Safety

The Group recognises the importance of health and safety of our employees, as well as subcontractors and other people who might be affected by our operation. Therefore, we are fully committed to maintaining the highest standard of work safety practices. With a set of safety management policy developed, all of our management, employees and subcontractors are required to comply with the following principles:

- To comply with statutory and contractual requirements on occupational health and safety and relevant codes of practice;
- To take occupational health and safety into account when planning engineering activities;
- To provide adequate resources, training and instructions to implement effective safety measures;
- To ensure an effective and efficient communication system on safety management and incident reporting;
- To maintain continual improvement of occupational health and safety performance by identifying safety risks and minimising the impacts.

To effectively implement the aforementioned principles and approaches, we have developed an occupational health and safety management system which has been accredited with OHSAS 18001:2007 certification.

A safety team consists of members possessing relevant safety qualifications has been established to perform safety risk assessment and hazard identification for each project and to ensure all of the project plans comply with our safety guidelines as well as relevant laws and regulations through regular site inspections.

The Group also constantly prepares our employees to take necessary actions to prevent and respond to emergency situations such as fire hazards. Various preventive measures have been implemented which are regularly reviewed. Site workers are also briefed for potential safety hazards by the safety team prior to commencement of work to minimise chances of accidents.

During the Year, there were no injuries or fatalities recorded for our direct employees, and we were not aware of any case of material non-compliance with occupational health and safety-related laws and regulations in Macao SAR.

Employee Training and Career Development

The Group acknowledges the importance of training for the purpose of more satisfying job performance and continuous development of employees. Therefore, the Group is committed to providing relevant opportunities including induction programs and external courses such as technical training and regulatory updates. We also support our employees to obtain professional qualifications for the advancement of their career development. Moreover, supervisors are responsible for providing their subordinates with feedback on the job and we also encourage employees to maintain an open discussion about the strengths and improvements of each other.

B. SOCIAL (Continued)

Prohibition of Child Labour and Forced Labour

The Group forbids any unlawful employment including child and forced labour. All of our employees are required to provide relevant identification documents before the commencement of work. We also require our subcontractors to register their employees' identification document and license number to prevent the employment of workers who are not legally eligible to take up any job duties in Macao SAR.

During the Year, the Group was not aware of any case of material non-compliance with child and forced labour-related laws and regulations in Macao SAR.

Supply Chain Monitoring

The Group encourages our supply chain partners including subcontractors, suppliers and service providers to adopt environmentally and socially responsible practices.

We prefer to engage supply chain partners with satisfactory environmental and social performance, and will maintain a close communication and monitoring regarding these aspects. Regular evaluations such as on-site inspections are conducted and any exception or non-compliance are reported to the management immediately. Timely remediation on the risks identified is required, and failure in complying with our environmental and social expectation may lead to termination of business relationship.

Quality Management

To ensure our services quality, the Group has established a quality management system ("QMS") which has been accredited with ISO 9001:2015 certification, with a policy manual in place which provides guidelines to our employees for meeting our objectives as follows:

- To provide effective and reliable services to satisfy the demands and expectations of our clients;
- To comply with all relevant standards, statutory and regulatory requirements;
- To provide appropriate training for employees to enhance quality of works and services;
- To monitor and improve the effectiveness of QMS by conducting periodic internal reviews, data analysis and enhancement; and
- To obtain feedback regularly to identify the improvement areas of QMS.

B. SOCIAL (Continued)

Protection of Customer Information and Intellectual Property Rights

The Group values the protection of confidential information of our employees and customers as well as intellectual property rights. No personal or business sensitive information are allowed to be taken away from our premises physically or through company network unless it has been formally approved by the management and the respective information is only for the use of performing job duties.

Furthermore, employees are required to acknowledge and comply with the Employee Handbook in regards to the confidentiality clause restricting employees from divulging or communicating any customer or company-related information to any person outside of the Group. Any unauthorised access, disclosure or use of information will be subject to disciplinary actions including termination and legal action.

During the Year, we are not aware of any case of material non-compliance regarding service quality and data privacy-related laws and regulations in Macao SAR.

Preventing Bribery and Corruption

The Group has a zero-tolerance policy towards all forms of corruption and fraud such as bribery, extortion, fraud and money laundering. Therefore, an internal control system has been established to monitor our major business activities ranging from tendering, project management, procurement, payment, to financial reporting so as to control any potential fraud risks. We have also regularly engaged an independent internal control adviser to evaluate adequacy and effectiveness of our internal control system to ensure a sound corporate governance.

In addition, training from relevant organisation (e.g. Commission Against Corruption) and legal professionals are arranged for our management team and employees to enhance their awareness of bid-rigging and bribes, as well as the relevant law and regulations. Effective whistle blowing policy and anonymous communication channels have been established for employees, customers and sub-contractors in order to help identify and handle fraudulent act properly.

Furthermore, our policy forbids employees to possess any financial or other personal interest in transactions between the Group and our business partners. Potential conflicts of interest that may increase the risk of bribery and bid-rigging will be monitored. If there is any perceived, potential or actual conflict of interest, employees are required to report to the management immediately.

During the Year, the Group was not aware of any case of material non-compliance with corruption-related laws and regulations in Macao SAR.

B. SOCIAL (Continued)

Student Support

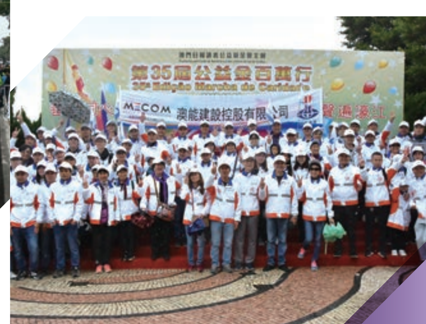
Community involvement has always been a part of our corporate culture, and the Group seeks to support and contribute to the society by means of student sponsorships to University of Macao. The amount of sponsorship will be MOP 10,000 to each awardee and there will be 10 awardees in total per annum. This sponsorship program is planned to be 3 years. In addition, we also encourage and support our employees to take part in voluntary services and help the underserved.

Mr. Benson Lam was the guest speaker of the Career and Life Experience Sharing session organised by University of Macao on 17 January 2019

Charity Donation

As a responsible corporate citizen, the Group had been engaged in ongoing community work. In December 2018, the Group donated a sum of MOP 20,000 to sponsor the event of "Marcha De Caridade Para Um Milhao 2018" held by The Community Chest, a recognised charity organisation in Macau.

Members of the Group joined in the charitable and meaningful event to show our support for the community.



BOARD OF DIRECTORS

Executive Directors

Mr. Kuok Lam Sek, aged 56, is an executive Director, the chairman of the Board and the founder of the Group. He was appointed as a Director in May 2017 and was re-designated as an executive Director on 6 July 2017. Mr. Kuok is responsible for the overall management and strategic planning of the Group.

Mr. Kuok has over 36 years of experience in the construction industry. Prior to establishing Engenharia Hung Yip, Mr. Kuok worked as a contractor worker in various construction contractors in Macau, where he commenced his career in the engineering and construction industry. In December 2000, Mr. Kuok founded Engenharia Hung Yip which was then engaged in the steel structure works, where he served as a director and was responsible for the project management and management of various kinds of large scale construction projects (including construction work for the 4th East Asian Games in Macau).

Mr. Sou Kun Tou, aged 52, is an executive Director, the deputy chairman of the Board and the chief executive officer of the Company. He was appointed as a Director in May 2017 and was re-designated as an executive Director on 6 July 2017. Mr. Sou is responsible for the day-to-day business operations of the Group.

Mr. Sou has over 30 years of experience in the construction industry. Prior to joining the Group, Mr. Sou served as an assistant engineer at the planning and development department of Macau Water Supply Co., Ltd., a company which is engaged in water treatment, from August 1988 to December 1989 where he was primarily responsible for assisting engineers in engineering related works. From December 1989 to September 1994, Mr. Sou served as the general manager at Decol Ltd., a provider primarily engaged in electrical and mechanical services work, where he was primarily responsible for designing and managing electrical and mechanical projects. From October 1994 to November 2006, Mr. Sou held various positions at the Macau government and last served as the Chiefe de Divisao de Equipamentos Urbanos, Deste Instituto (民政總處設備處處長) and was primarily responsible for overseeing electrical and mechanical matters.

Mr. Sou obtained his bachelor's degree of precision mechanical engineering, majoring in mechanical manufacturing technology and equipment, from Huaqiao University in China in July 1988. He obtained his master of electromechanical engineering from the Universidade de Macau in August 2002. Mr. Sou was admitted as an engineer by DSSOPT (土地工務運輸司) in May 1991.

BOARD OF DIRECTORS (Continued)

Independent Non-executive Directors

Ms. Chan Po Yi, Patsy, aged 54, was appointed as an independent non-executive Director on 23 January 2018, and is the chairlady of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company.

Ms. Chan is currently the chief operating officer of Richemont Luxury (Singapore) Pte Ltd., where she is responsible for overseeing its operations in Singapore. She has been working with Richemont Luxury Group, one of the global luxury goods companies, for over 21 years. With more than 21 years of experience in several prestigious multinational corporations, Ms. Chan leads such company in maximising operational efficiency and cost effectiveness with knowledge in risk management and corporate governance as well as in-depth perception in strategic planning and performance measurement development. Prior to joining Richemont Luxury Group, Ms. Chan served as the financial controller at Marsh & McLennan Limited, a global professional services firm, where she was primarily responsible for the financial control.

Ms. Chan holds a Bachelor Degree of Commerce in Accounting from the University of New South Wales and completed the Luxury Brand Management Executive Program at ESSEC Business School. She has been a certified practicing accountant of CPA Australia since October 1992.

Mr. Cheung Kiu Cho, Vincent, aged 43, was appointed as an independent non-executive Director on 23 January 2018, and is the chairman of the Nomination Committee and a member of the Remuneration Committee and Audit Committee of the Company.

Mr. Cheung has over 21 years of experience in real estate industry and assets valuation and advisory sector. From January 2016 to November 2018, Mr. Cheung joined Colliers International (Hong Kong) Limited, a global real estate firm, and last served as the deputy managing director of valuation and advisory services division in Asia where he was responsible for providing valuation and corporate advisory services across Asia and advised his clients in various acquisition and disposal of various types of projects in different regions. Mr. Cheung is currently the managing director of Vincorn Consulting and Appraisal Limited, where he is responsible for the corporate valuation and advisory services across Asia.

Mr. Cheung holds a Master Degree of Business Administration in International Management from the University of London (in association with Royal Holloway and Bedford New College) and a Bachelor of Science Degree (Honours) in Real Estate from the Hong Kong Polytechnic University. Mr Cheung is a Registered Professional Surveyor in the General Practice Division by the Surveyors Registration Board in Hong Kong, member of the Hong Kong Institute of Surveyors, fellow member and registered valuer of the Royal Institution of Chartered Surveyors. Mr Cheung is also a member of Hong Kong Securities and Investment Institute.

BOARD OF DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Dr. Ngan Matthew Man Wong, aged 79, was appointed as an independent non-executive Director on 23 January 2018, and is the chairman of the Remuneration Committee and a member of the Nomination Committee and Audit Committee of the Company.

Dr. Ngan is a registered doctor and has been practicing medicine for almost 41 years specialising in radiology. From July 2001 to September 2002, Dr. Ngan served as the chief executive officer of Sonic Healthcare Asia Limited, a healthcare organisation, where he was responsible for radiological matters in Hong Kong. Dr. Ngan has been appointed as medical consultant of various private medical institutions, including iRad Medical Diagnostic Center in Hong Kong since 2005.

Dr. Ngan holds a Master Degree of Pain Medicine from the University of Newcastle in Australia and a Bachelor Degree of Medicine and Bachelor Degree of Surgery from the University of New South Wales and a Diploma in Diagnostic Radiology from the University of Sydney. Dr. Ngan is a Registered Medical Practitioner of the Medical Council in Hong Kong and a Registered Specialist in Diagnostic Radiology in Australia and a member of the Radiological Society of North America.

SENIOR MANAGEMENT

Mr. Lam Kuok Wa, aged 45, is the chief operating officer and is primarily responsible for the day to day operations management, engineering project management and supervision of the Group. Mr. Lam has over 21 years of experience in the civil engineering industry and he joined the Group in 2007.

Mr. Lam holds a bachelor's degree in engineering, majoring in civil engineering, from the Universidade de Macau. Mr. Lam is a civil engineer of Conselho de Arquitectura, Engenharia e Urbanismo (建築、工程及城市規劃專業委員會).

Mr. Lao Ka Wa, aged 45, is the vice president and is primarily responsible for engineering project coordination and supervision of the Group. Mr. Lao has over 25 years of experience in the construction industry and he joined the Group in 2007.

Ms. Tam Wing Yee, aged 37, is the finance manager and the company secretary and is responsible for finance, accounting and company secretarial matters of the Group. Ms. Tam has over 15 years of experience in accounting and auditing and she joined the Group in 2017.

Ms. Tam holds a bachelor's degree in business administration (Honours) from The Chinese University of Hong Kong. Ms. Tam has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2008.

COMPANY SECRETARY

Ms. Tam Wing Yee, aged 37, is the company secretary. For details of her background, please refer to the sub-section headed "Senior Management" in this section.

CORPORATE GOVERNANCE REPORT

The board hereby presents this corporate governance report in the Group's annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") under Appendix 14 of the Listing Rules as the basis of the Company's corporate governance practices.

The CG Code has been applicable to the Company from 13 February 2018, the Listing Date, to 31 December 2018. During the period from the Listing Date to 31 December 2018 (the "Relevant Period"), the Board is of the opinion that the Company has complied with all the code provisions.

CORPORATE GOVERNANCE FUNCTIONS

The Audit Committee of the Company is responsible for performing the corporate governance duties as set out in the provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosures in the corporate governance report as set out in the annual report of the Company.

The Audit Committee of the Company is performing the abovementioned corporate governance functions starting from the Listing Date.

THE BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and the Shareholders. The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The functions performed by the Board include formulating the Board's business plans and strategies, making all significant financial and operational decisions, developing, monitoring and reviewing the Group's corporate governance and addressing shareholders' concerns at general meetings. The management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board. The Board has established three Board committees (the "Board Committees"), being the audit committee (the "Audit Committee"), the nomination committee (the "Nomination Committee") and the remuneration committee (the "Remuneration Committee"), to oversee different areas of the Company's affairs.

THE BOARD OF DIRECTORS (Continued)

Board Composition

The Board currently consists of five directors, comprising two Executive Directors and three Independent Non-executive Directors (the "INED(s)"). As at the date of this report, the Board of the Company comprises the following directors:

Executive Directors

Mr. Kuok Lam Sek *(Chairman)*
Mr. Sou Kun Tou

Independent Non-executive Directors

Ms. Chan Po Yi, Patsy
Mr. Cheung Kiu Cho, Vincent
Dr. Ngan Matthew Man Wong

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. The biographies of the Directors are set out in the "Biographical Details of Directors and Senior Management" section of this annual report, which demonstrates a diversity of skills, expertise, experience and qualifications. Save as disclosed therein, there are no financial, business, family or other material or relevant relationships among the members of the Board.

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years with effect from 13 February 2018, unless terminated by the respective Director or the Company in accordance with the terms of the service agreement. Under the code provision A.4.1 of the CG Code, the INEDs should be appointed for a specific term. Each of the INEDs has entered into a letter of appointment with the Company which shall last for a period of three years with effect from 13 February 2018, subject to early termination in accordance with the terms of the letter of appointment.

During the Relevant Period, the Board has at all times met the requirements of Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications, or accounting or related financial management expertise.

The three INEDs represent more than one-third of the Board, the proportion of which is higher than what is required by Rule 3.10A of the Listing Rules whereby independent non-executive directors of a listed issuer must represent at least one-third of the board. The Board believes there is sufficient independence element in the Board to safeguard the interest of the Shareholders.

Independence of the INEDs

The role of the INEDs is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and Board Committees to provide their independent and objective views. All the INEDs are free from any business or other relationships with the Company.

THE BOARD OF DIRECTORS (Continued)

Independence of the INEDs (Continued)

The Company has received written annual confirmation of independence from each INED in accordance with Rule 3.13 of the Listing Rules. The Company has assessed their independence and concluded that all the INEDs are independent within the meaning of the Listing Rules.

Functions of the Board and Management

The Board is primarily responsible for establishing the overall strategies of the Group, setting objectives and business development plans, assuming responsibility of corporate governance and monitoring the performance of senior management.

The management is responsible for implementing the strategies and plans established by the Board and reporting on the Group's operations to the Board on a regular basis to ensure effective performance of the Board's responsibilities.

All Directors have separate and independent access to the Group's senior management and operational staff to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

Continuing Professional Development

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be provided to Directors where appropriate.

The individual training record of each Director during the Relevant Period is summarised below:

Name of Director	Attending training course(s)	Reading materials
Executive Directors		
Mr. Kuok Lam Sek *(Chairman)*	✓	✓
Mr. Sou Kun Tou	✓	✓
Independent Non-executive Directors		
Ms. Chan Po Yi, Patsy	✓	✓
Mr. Cheung Kiu Cho, Vincent	✓	✓
Dr. Ngan Matthew Man Wong	✓	✓

THE BOARD OF DIRECTORS (Continued)

Board Attendance

Code provision A.1.1 of the CG Code prescribes that at least 4 regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication. The Board will schedule to have at least four regular meetings in a year. Other board meetings will be held if necessary.

The attendance record of each director at the Board meetings held during the Relevant Period is set out in the table below:

	Attendance/Number of Board Meetings during the Relevant Period
Executive Directors	
Mr. Kuok Lam Sek	5/5
Mr. Sou Kun Tou	5/5
Independent Non-executive Directors	
Ms. Chan Po Yi, Patsy	3/5
Mr. Cheung Kiu Cho, Vincent	3/5
Dr. Ngan Matthew Man Wong	3/5

DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against the Directors and senior management arising out of corporate activities. The insurance coverage is reviewed on an annual basis by the Company.

BOARD COMMITTEES

The Board has established three Board Committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee on 23 January 2018 to oversee specific aspects of the Group's affairs and help it in the execution of its responsibilities. These committees each have specific written terms of reference which clearly outline the committees' authority and duties, and which require the committees to report back on their decisions or recommendations to the Board. All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The Company has established the Audit Committee on 23 January 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The Audit Committee consists of three members, namely Ms. Chan Po Yi, Patsy, Mr. Cheung Kiu Cho, Vincent and Dr. Ngan Matthew Man Wong, all being INEDs. The Audit Committee is chaired by Ms. Chan Po Yi, Patsy who has appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The members of the Audit Committee will meet at least twice a year. During the Relevant Period, the Audit Committee held two meetings during which the Audit Committee has, inter alia, reviewed (i) the consolidated financial statements of the Group for the year ended 31 December 2017 and for the 6 months ended 30 June 2018, including the accounting principles and practices adopted by the Group; (ii) the risk management and internal control systems of the Group; (iii) the appointment of external auditor and their relevant scope of works; and (iv) continuing connected transaction of the Group. The attendance records of the respective members of the Audit Committee at its meetings are set out below:

	Attendance/Number of Committee Meetings during the Relevant Period
Ms. Chan Po Yi, Patsy *(Chairlady)*	2/2
Mr. Cheung Kiu Cho, Vincent	2/2
Dr. Ngan Matthew Man Wong	2/2

Remuneration Committee

The Company has established the Remuneration Committee on 23 January 2018 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code. The Remuneration Committee consists of three members, namely Dr. Ngan Matthew Man Wong, Ms. Chan Po Yi, Patsy and Mr. Cheung Kiu Cho, Vincent, all being INEDs. The Remuneration Committee is chaired by Dr. Ngan Matthew Man Wong.

The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Board regarding the remuneration policy and structure for all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of individual Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended 31 December 2018 is as follows:

Remuneration band	**Number of individual**
Not exceeding MOP1,000,000	1
MOP2,000,000 to MOP3,000,000	2

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

The members of the Remuneration Committee will meet at least once a year. During the Relevant Period, the Remuneration Committee met once for, inter alia, reviewing the remuneration packages for individual executive Directors and senior management and making recommendations to the Board. The attendance records of the respective members of the Remuneration Committee at its meetings are set out below:

	Attendance/Number of Committee Meetings during the Relevant Period
Dr. Ngan Matthew Man Wong *(Chairman)*	1/1
Ms. Chan Po Yi, Patsy	1/1
Mr. Cheung Kiu Cho, Vincent	1/1

Nomination Committee

The Company has established the Nomination Committee on 23 January 2018 with written terms of reference in compliance with paragraph A.5 of the CG Code. The Nomination Committee consists of three members, namely Mr. Cheung Kiu Cho, Vincent, Dr. Ngan Matthew Man Wong and Ms. Chan Po Yi, Patsy, all being INEDs. The Nomination Committee is chaired by Mr. Cheung Kiu Cho, Vincent.

The Company recognises the benefits of having a Board that has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's businesses. The Board has adopted a board diversity policy (the "Board Diversity Policy") to the effect that appointment to the Board should be based on merit that compliments and expands the skills and experience of the Board as a whole, and after due regard to factors including, without limitation, gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge, and any other factors that the Board may consider relevant and applicable from time to time towards achieving a diverse Board. The Board shall review the structure, size and composition of the Board from time to time to ensure that it has a balanced composition of skills and experience appropriate to the requirements of the Company's business, with due regard to the benefits of diversity of the Board.

The principal roles and functions performed by the Nomination Committee during the Year include:

a) Reviewing the Board Diversity Policy and the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

b) Developing and maintaining a policy for the nomination of board members (the "Nomination Policy") which includes the nomination procedures and the process and criteria adopted by the Nomination Committee to identify, select and recommend candidates for directorship during the year and reviewing periodically the policy and the progress made towards achieving the objectives set in the policy;

c) Identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship according to the stipulated nomination procedures;

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

d) Assessing the independence of independent non-executive Directors; and

e) Making recommendations to the Board on the appointment or re-appointment of Directors and succession plans for Directors.

On 28 March 2019, the Nomination Committee and the Board respectively adopted the Nomination Policy of the Company:

Criteria

In evaluation and selecting any candidate for directorship, the following criteria should be considered:

- Character and integrity.

- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy.

- Any measurable objectives adopted for achieving diversity on the Board.

- Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the non-executive director candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.

- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and diversity profile.

- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.

- The candidate should have sufficient time for the proper discharge of the duties of a director of the Company, including devoting adequate time for the preparation and participation in meetings, training and other activities of the Board or Company.

- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

The above criteria are for reference only and are not meant to be exhaustive or decisive.

Nomination Process — Appointment of New Director

- The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.

- The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of a new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above and such other factors as it considers appropriate to determine whether such candidate is qualified for directorship.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

Nomination Process — Appointment of New Director (Continued)

- If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

- The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. The Board has the final authority on determining suitable director candidate for appointment.

- For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above and such other factors as it considers appropriate to determine whether such candidate is qualified for directorship.

  Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Nomination Process — Re-election of Director at General Meeting

- The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

- The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above and such other factors as it considers appropriate.

- The Nomination Committee and/or the Board should then make recommendation to the shareholders in respect of the proposed re-election of the retiring director at the general meeting.

- Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate shall be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules, the articles of association of the Company and/or applicable laws and regulations. In particular, in relation to the election or re-election of an individual as independent non-executive director of the Company at a general meeting, the Board should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting:

  (i) the process used for identifying the candidate and why the Board believes the candidate should be elected and the reasons why it considers the candidate to be independent;

  (ii) if the proposed independent non-executive director will be holding their seventh (or more) listed company directorship, why the Board believes the candidate would still be able to devote sufficient time to the Board;

  (iii) the perspectives, skills and experience that the candidate can bring to the Board; and

  (iv) how the candidate contributes to diversity of the Board.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

Review

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Nomination Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

The members of the Nomination Committee can call for a meeting anytime when it is necessary. During the Relevant Period, the Nomination Committee met once, during which the Nomination Committee had, inter alia, reviewed the structure, size, composition and diversity of the Board, assessed the independence of the INEDs and considered and recommended to the Board on the retirement by rotation and re-election of Directors at the forthcoming annual general meeting. The Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs and that the Directors bring with them complimenting skills and experience appropriate to the requirements of the Company's business. The attendance records of the respective members of the Nomination Committee at its meetings are set out below:

	Attendance/Number of Committee Meetings during the Relevant Period
Mr. Cheung Kiu Cho, Vincent *(Chairman)*	1/1
Dr. Ngan Matthew Man Wong	1/1
Ms. Chan Po Yi, Patsy	1/1

MODEL CODE FOR 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. The Model Code was not applicable to the Company before the Listing Date. Having made specific enquiries of all the Directors, each of the Directors confirmed that he/she has complied with the required standards set out in the Model Code throughout the Relevant Period.

Pursuant to Rule B.13 of the Model Code, the Directors have also requested any employee of the Company or director or employee of a subsidiary of the Company who, because of his/her office or employment in the Company or a subsidiary, is likely to possess inside information in relation to the securities of the Company, not to deal in securities of the Company when he/she would be prohibited from dealing by the Model Code as if he/she were a Director.

DIVIDEND POLICY

Pursuant to the CG Code, the Board has adopted a dividend policy (the "Dividend Policy") which aims to allow the Shareholders to share the profits of the Company whilst retaining adequate reserves for the future growth of the Group. According to the Dividend Policy, declaration of dividend is subject to the discretion of the Board, taking into consideration of, among others, the following factors:

(a) the Group's actual and expected financial performance;

(b) the Group's liquidity condition, expected working capital requirements, capital expenditure requirements and future expansion plans;

DIVIDEND POLICY (Continued)

(c) the taxation considerations;

(d) the contractual, statutory and regulatory restriction, if any;

(e) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(f) any other factors that the Board may deem relevant.

The declaration and payment of dividends by the Company shall be determined at the sole discretion of the Board and shall be subject to any restrictions under the Companies Law of the Cayman Islands and the Articles of Association of the Company. The Dividend Policy is subject to review by the Board from time to time and will be amended as and when appropriate.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements for each financial year which give a true and fair view of the Group's state of affairs, results and cash flows and in accordance with the relevant accounting standards and principles and the disclosure requirements under applicable laws and regulations in Hong Kong. In preparing the consolidated financial statements of the Group for the Year, the Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to any events or conditions which may affect the business of the Group or cast doubts over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the ongoing concern basis in preparing the consolidated financial statements for the Year.

The responsibilities of external auditor of the Company, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu, certified public accountants (the "Auditor") has been appointed as the external auditor of the Company. During the Year, the fees paid or payable to the Auditor in respect of its audit and non-audit services provided to the Group is set out as follows:

	Fees paid or payable during the Year HK$ million
Annual audit services	1.6
Non-audit services	1.0
Total	2.6

Non-audit services mainly included interim review, taxation and advisory services.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Group's risk management and internal control systems and oversee management in the design, implementation and monitoring of the risk management and internal control systems.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board is also responsible for reviewing from time to time the effectiveness of the Group's risk management and internal control system, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

Clear roles and responsibilities are assigned to different level of management within the Group. Management of the Group is responsible for designing, implementing and monitoring risk management and internal control systems, and is responsible for identifying, analysing and prioritising risk for further consideration by the Board, and ensuring that the risk monitoring and control system are working effectively and risk mitigation actions are implemented within business units.

The Board has reviewed the effectiveness of the internal control and risk management systems of the Group, covering all material controls, including financial, operational and compliance controls and risk management functions for the Year. Based on the result of the review in respect of the Year, the Directors considered that the internal control and risk management systems of the Group are effective and adequate.

The Group has established a set of risk management and internal control policies and measures covering various aspects of its operations, including but not limited to: (a) revenue and receipts; (b) capital expenditure management; (c) purchases, expenses and payments; (d) human resources and payroll; (e) treasury management; and (f) financial reporting. These policies and measures are to ensure proper accounting records are kept so that reliable financial reporting can be provided, effectiveness and efficiency of operation can be achieved, compliance with applicable laws and regulations and safeguarding of assets can be maintained.

The Board is also of the view that safety, as part of loss control management, is a vital part of the construction business worldwide, and if not managed properly, it can be extremely costly not only in human terms, but also in monetary terms. Therefore, safety is treated as the highest priority during the delivery of our services with emphasis on hazard management and risk assessment.

The Group has established safety manuals and project safety plans to ensure that all workers at the construction sites are well aware of all the stipulated safety requirements. In addition, qualified safety officer and safety supervisor are deployed to monitor and implement our safety system in each construction project. The Company has been accredited with ISO 14001 and OHSAS 18001 qualifications in respect of our environmental management system and occupational safety and health management system. As a result, the Board is satisfied that these measures are adequate and effective to promote a safer and healthier environment for the workers at the construction sites.

For the handling and dissemination of inside information, an inside information handling policy is in place to enable the Group to handle inside information and, where required, communicate with the Group's stakeholders in a timely manner.

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

The Company does not establish a standalone internal audit department, however, the Board has put in place adequate measures to perform the internal audit function at different aspects of the Group which are discussed below. Firstly, the Audit Committee has established formal arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations. Our internal control measures, policies and procedures which were codified, adopted and implemented by the Group, have also been updated and revised. Furthermore, the Company engaged an external independent consultant to perform periodic review of our internal control system to evaluate the effectiveness and formulate plans and recommendations for improvement of our internal control measures and policies. It is intended to review the effectiveness of the Group's material internal controls so as to provide assurance that key internal control measures are carried out appropriately and are functioning as intended.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolutions should be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to article 58 of the Articles of Association, an extraordinary general meeting shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two calendar months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or the Cayman Islands Companies Law for Shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

SHAREHOLDERS' RIGHTS (Continued)

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Units Q, R and S, 6/F, Praça Kin Heng Long-Heng Hoi Kuok, Kin Fu Kuok, No. 258 Alameda Dr. Carlos D'Assumpção, Macau (For the attention of the Board of Directors)
Fax:	853 — 2823 8112
Email:	info@mecommacau.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Company maintains a website at www.mecommacau.com as a communication platform with the Shareholders and investors, where the financial information and other relevant information of the Company are available for public access.

CONSTITUTIONAL DOCUMENTS

In preparation for the Listing, the Company has adopted the amended and restated Memorandum and Articles of Association pursuant to a special resolution passed by all Shareholders on 23 January 2018. Since then, the Company has not made any changes to its Memorandum and Articles of Association. An up to date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and the Stock Exchange.

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 8 May 2017.

In preparation for the Listing, the Group underwent the reorganisation, details of the reorganisation are set out in note 1 to the consolidated financial statements.

The Shares were listed on the Main Board of the Stock Exchange with effect from 13 February 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are engaged in provision of construction services, including construction and fitting out works, and high voltage power substation construction and its system installation works; and provision of facilities management services. The principal activities and other particulars of the subsidiaries are set out in note 32 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by operating segment is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 64 of this annual report.

The Board has recommended the payment of a final dividend of HK3.4 cents per share for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on 14 June 2019. The payment of the proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting. The proposed dividend is expected to be paid on 5 July 2019.

There was no arrangement under which a shareholder has waived or agreed to waive any dividends for the year ended 31 December 2018.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future business development, are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 6 and 7 to 17 respectively of this annual report. An analysis of the Group's performance during the year using financial key performance indicators is set out in the section headed "Management Discussion and Analysis" in this annual report.

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Wednesday, 5 June 2019. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the above annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 30 May 2019.

The payment of the proposed final dividend for the year ended 31 December 2018 is subject to the approval of shareholders at the annual general meeting. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 12 June 2019 to Friday, 14 June 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible for the above proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 11 June 2019.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 136 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 66 of this annual report and in note 31 to the consolidated financial statements, respectively.

The reserves of the Company which were available for distribution to shareholders at 31 December 2018 were MOP429,617,000.

DONATIONS

Donations made by the Group during the Year amounted to MOP20,000 (2017: Nil).

MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

During the year, the Group's top five customers accounted for approximately 84.9% of the Group's total revenue for the year. The largest customer accounted for approximately 35.1% of the Group's total revenue for the year.

During the year, purchases from the Group's top five suppliers and subcontractors accounted for approximately 46.5% of the Group's total purchase costs for the year. The largest subcontractor accounted for approximately 15.7% of the Group's purchases costs for the year.

The Group's largest customer, Melco Resorts & Entertainment Limited, is owned as to (i) approximately 54.05% by Melco International Development Limited ("Melco International"), which is in turn owned as to approximately 55.04% (including beneficial interest, interest of his controlled corporations and interest of a trust in which he is one of the beneficiaries and taken to have interest by virtue of the SFO) by Mr. Ho, Lawrence Yau Lung ("Mr. Ho"); and (ii) approximately 0.62% personally by Mr. Ho as beneficial owner. Mr. Ho is a substantial shareholder of the Company by virtue of his 100% interest in King Dragon Ventures Limited ("King Dragon"), which holds 20% of the total number of issued shares of the Company.

Save as disclosed above, none of the Directors, their associates, or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued shares) has any interest in the Group's five largest customers or its five largest suppliers and subcontractors.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Mr. Kuok Lam Sek *(Chairman)*
Mr. Sou Kun Tou

Independent Non-executive Directors

Ms. Chan Po Yi, Patsy — appointed on 23 January 2018
Mr. Cheung Kiu Cho, Vincent — appointed on 23 January 2018
Dr. Ngan Matthew Man Wong — appointed on 23 January 2018

In accordance with article 84 of the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation every year shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Ms. Chan Po Yi, Patsy and Mr. Cheung Kiu Cho, Vincent will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 29 to 31 of this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual confirmation of independence from each of the Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers that each of the Independent Non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company, and each of the independent non-executive Directors has signed an appointment letter with the Company, for a term of three years commencing from the Listing Date which may be terminated by either party with three months' written notice.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, each director or other officer of the Company shall be entitled to be indemnified out of the assets or profits of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company since 13 February 2018.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group or in existence during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Continuing Connected Transactions" and in note 26 to the consolidated financial statements, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Continuing Connected Transactions" and in note 26 to the consolidated financial statements, apart from transactions carried out in the normal course of business, there were no contracts of significance between the Company or any of its subsidiaries and the controlling shareholder or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share options granted by the Company under its share option scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

(i) Interests in the Company

Name of Director	Nature of interest	Number of shares (Note 1)	Approximate percentage of shareholding interest (Note 2)
Mr. Kuok Lam Sek ("Mr. Kuok") (Note 3)	Interest of the controlled corporation	600,960,000 (L)	50.08%
Mr. Sou Kun Tou ("Mr. Sou") (Note 3)	Interest of the controlled corporation	600,960,000 (L)	50.08%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) Based on 1,200,000,000 Shares in issue as at 31 December 2018.

(3) MECOM Holding Limited is owned as to 35% by Mr. Kuok, 35% by Mr. Sou, 15% by Mr. Lam Kuok Wa ("Mr. Lam") and 15% by Mr. Lao Ka Wa ("Mr. Lao"), respectively. Mr. Kuok, Mr. Sou, Mr. Lam and Mr. Lao are parties acting in concert.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(ii) Interests in underlying shares of the Company

Name of Director	Nature of interest	Number of underlying shares (Note 1)	Approximate percentage of shareholding interest (Note 2)
Ms. Chan Po Yi, Patsy	Beneficial interest	200,000 (L)	0.02%
Mr. Cheung Kiu Cho, Vincent	Beneficial interest	200,000 (L)	0.02%
Dr. Ngan Matthew Man Wong	Beneficial interest	200,000 (L)	0.02%

Notes:

(1) As at 31 December 2018, the interests in the underlying shares are in relation to the share options granted under the share option scheme of the Company.

(2) Based on 1,200,000,000 Shares in issue as at 31 December 2018.

(iii) Interests in associated corporation of the Company

Name of Directors	Name of associated corporation	Nature of interest	Interest in shares	Percentage holding
Mr. Kuok (Note)	MECOM Holding Limited	Beneficial owner and interest held jointly with another person	100	100%
Mr. Sou (Note)	MECOM Holding Limited	Beneficial owner and interest held jointly with another person	100	100%

Note: MECOM Holding Limited is owned as to 35% by Mr. Kuok, 35% by Mr. Sou, 15% by Mr. Lam and 15% by Mr. Lao, respectively. Mr. Kuok, Mr. Sou, Mr. Lam and Mr. Lao are parties acting in concert.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests or short positions of persons other than the Directors and chief executive of the Company in the Shares and underlying shares of the Company as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial shareholder	Nature of interest	Number of shares (Note 1)	Approximate percentage of shareholding interest
Mr. Lam (Note 2)	Interest of the controlled corporation	600,960,000 (L)	50.08%
Mr. Lao (Note 2)	Interest of the controlled corporation	600,960,000 (L)	50.08%
MECOM Holding Limited	Beneficial owner	600,960,000 (L)	50.08%
Mr. Ho (Note 3)	Interest of the controlled corporation	240,000,000 (L)	20%
King Dragon	Beneficial owner	240,000,000 (L)	20%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) MECOM Holding Limited is owned as to 35% by Mr. Kuok, 35% by Mr. Sou, 15% by Mr. Lam and 15% by Mr. Lao, respectively. Mr. Kuok, Mr. Sou, Mr. Lam and Mr. Lao are parties acting in concert.

(3) King Dragon is beneficially and wholly-owned by Mr. Ho. By virtue of the SFO, Mr. Ho is deemed to be interested in the Shares held by King Dragon.

Save as disclosed above, as at 31 December 2018, the Directors had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short position in the Shares or underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Share Option Scheme, including the movement of, and any outstanding share options during the Year are disclosed in note 23 to the consolidated financial statements. The Share Option Scheme was adopted by the Shareholders on 23 January 2018 and became effective upon the Listing.

COMPETING BUSINESS

During the year, none of the Directors or the Controlling Shareholders and their respective close associates had any interests in any business, apart from the business of the Group, which competes or likely to compete (either directly or indirectly) with the business of the Group.

DEED OF NON-COMPETITION

The deed of non-competition (the "Deed of Non-Competition") dated 23 January 2018 has been entered into by MECOM Holding Limited, Mr. Kuok, Mr. Sou, Mr. Lam and Mr. Lao, the controlling shareholders of the Company within the meaning of the Listing Rules (collectively the "Controlling Shareholders") in favour of the Company, details of which are set out in section headed "Relationship with Controlling Shareholders — Non-Competition Undertakings" in the prospectus of the Company dated 1 February 2018.

The Controlling Shareholders confirmed their compliance with all the undertakings provided under the Deed of Non-Competition. The independent non-executive Directors had reviewed and confirmed that there are no matters required to be deliberated by them in relation to the compliance with and enforcement of the Deed of Non-Competition and considered that the terms of the Deed of Non-Competition have been complied with by the Controlling Shareholders.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group entered into the following non-exempt continuing connected transactions with Melco Resorts & Entertainment Limited and its subsidiaries, including COD Resorts Limited ("COD Resorts"), Studio City Developments Limited, Studio City Hotels Limited, Altira Resorts Limited, Golden Future (Management Services) Limited and Melco Resorts (Macau) Limited:

(1) Project and Supply Works

The Group provides structural steelworks, civil engineering construction, and fitting out and renovation works (the "Project and Supply Works") on a project-by-project basis to COD Resorts for the Melco Hotels and Studio City Developments Limited and Studio City Hotels Limited (the "SC Companies") for the SC Hotel.

It is envisaged that from time to time and as required, individual variation orders may be entered into between the Group (on one hand) and COD Resorts, the SC Companies and/or their respective affiliates (on the other hand). Each individual variation order will set out the scope of, and the fee (if any) for, the Project and Supply Works and any detailed specifications which may be relevant to the services. The terms of the orders will be on normal commercial terms and will be no more favourable to COD Resorts and/or the SC Companies than those available to other independent project owners. As these variation orders will be entered into in connection with and will be of similar nature with the Project and Supply Works, they do not constitute new categories of connected transactions as far as Listing Rules are concerned.

CONTINUING CONNECTED TRANSACTIONS (Continued)

(1) Project and Supply Works (Continued)

On 31 July 2018, EHY Construction and Engineering Company Limited (an indirect wholly-owned subsidiary of the Company and as the contractor) entered into a term contract (the "New COD Framework Agreement") with COD Resorts (as the employer) for the provision of additional Project and Supply Works for the Melco Hotels for a term from 1 July 2018 to 30 June 2021 (both days inclusive) subject to individual work order(s) as may be issued by or on behalf of COD Resorts from time to time and a maximum contract amount of HK$600 million (equivalent to approximately MOP618 million) for all the work orders (including variation orders) as may be issued thereunder.

As disclosed in the circular of the Company dated 22 November 2018 (the "Circular"), the Board estimated that the annual cap in respect of the Project and Supply Works will not exceed MOP199.2 million, MOP402.4 million, MOP288.4 million and MOP170.8 million for each of the four years ending 31 December 2021 respectively. Such estimate was based on (i) the aggregate contracted amount for the Project and Supply Works which had been secured by the Group and in respect of which revenue is expected to be recognised during the year ending 31 December 2018; (ii) the tenders to be secured in respect of transactions contemplated under the New COD Framework Agreement in respect of the four years ending 31 December 2021, including new projects to be launched by the Melco Hotels for the four years ending 31 December 2021; (iii) the potential new projects that the Company will bid for which will be launched by the SC Companies; and (iv) a sufficient buffer for the Project and Supply Works to ensure smooth running of the projects taking into account (a) the certification and payment schedule between the Group (on one hand) and COD Resorts and/or the SC Companies (on the other hand) pursuant to the underlying contracts, which may accelerate or delay recognition of revenue by the Group; (b) potential increase in materials and labour costs leading to an increase in the project sum, having regard to the inflation rate in Macau during the last five years and the general upward trend of material and labour costs in Macau as seen in recent year; and (c) ad-hoc requests, redecoration and changes to the original plans or contracted scope of work of the Melco Hotels and/or the SC Hotel that the Company cannot presently foresee.

During the year, the total revenue derived from the Project and Supply Works amounted to approximately MOP133.8 million, which were within the annual caps for the Year.

(2) Facility Management Services

The Group provides facilities management, alteration and maintenance works and services (the "Facility Management Services") to each of Altira Resorts Limited, COD Resorts, Golden Future (Management Services) Limited and Melco Resorts (Macau) Limited (collectively, the "Melco Project Owners") and Studio City Hotels Limited (the "SC Project Owner") for the hotel resorts and other business properties in Macau owned/operated by the Melco Project Owners and/or their affiliates (the "Melco Hotels") and SC Project Owner and/or their affiliates (the "SC Hotel").

It is envisaged that from time to time and as required, individual variation orders may be required to be entered into between the Group (on one hand) and the Melco Project Owners, the SC Project Owner and/or their respective affiliates (on the other hand) during the course of the provision of Facility Management Services by the Group. Each individual variation order will set out the scope of, and the fee (if any) for, the maintenance and repair services required and any detailed specifications which may be relevant to the services. The terms of the orders will be on normal commercial terms and will be no more favourable to the Melco Project Owners and/or the SC Project Owner than is available to other independent project owners. As these variation orders will be entered into in connection with and will be of similar nature with the Facility Management Services, they do not constitute new categories of connected transactions as far as Listing Rules are concerned.

CONTINUING CONNECTED TRANSACTIONS (Continued)

(2) Facility Management Services (Continued)

As disclosed in the Circular, the Board estimated that the annual cap in respect of the Facility Management Services will not exceed MOP82.3 million, MOP85.6 million and MOP88.1 million for each of the three years ending 31 December 2020 respectively. Such estimate was based on (i) the aggregate contracted amounts for the Facility Management Services which had been secured by the Group and in respect of which revenue is expected to be recognised in the three years ending 31 December 2020; (ii) the expected new facility management and maintenance projects in respect of the Melco Hotels and the SC Hotel for the three years ending 31 December 2020, including the potential new projects that the Company will bid for; (iii) the recently opened hotel under Melco Hotels which the Group is targeting to provide the full suite of facility management services, such as plumbing, ventilation and electrical systems; and (iv) a sufficient buffer for both the Facility Management Services to ensure smooth running of the projects, taking into account (a) the wear and tear of the systems, equipment and facilities within the Melco Hotels and the SC Hotel over time; (b) the increasing frequency of maintenance works and emergency works as a result of (a) above; (c) the increase in ad-hoc purchase of parts and components needed to be replaced as a result of (a) above; (d) potential increase in materials and labour costs leading to an increase in the project sum, having regard to the inflation rate in Macau during the last five years and the general upward trend of material and labour costs in Macau as seen in recent years; and (e) ad-hoc requests and changes to the original plans of or contracted scope of services required by the Melco Project Owners and/or the SC Project Owner that the Company cannot presently foresee.

During the year, the total revenue derived from the Facility Management Services amounted to approximately MOP76.1 million, which was within the annual caps for the Year.

Each of the Melco Project Owners and the SC Companies was an indirect subsidiary of Melco International, which in turn was owned as to approximately 55.04% (including beneficial interest, interest of his controlled corporations and interest of a trust in which he is one of the beneficiaries and taken to have interest by virtue of the SFO) by Mr. Ho, one of the substantial shareholders of the Company. As such, each of the Melco Project Owners and the SC Companies is an associate of Mr. Ho and therefore a connected person of the Company, and the provision of the Project and Supply Works and the provision of the Facility Management Services constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

One or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules and calculated with reference to the proposed annual caps for each of the years shown above in aggregate, is expected to be more than 5% on an annual basis. As such, the non-exempt continuing connected transactions in relation to the Project and Supply Works and the Facility Management Services are subject to reporting, annual review, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

Further details of the transactions are set out in the Circular.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors have reviewed the above continuing connected transactions and confirmed that they have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the above continuing connected transactions with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided to the Stock Exchange.

RELATED PARTY TRANSACTIONS

Other significant related party transactions entered into by the Group during the year ended 31 December 2018, which do not constitute non-exempt connected transactions under the Listing Rules as disclosed above, are disclosed in note 26 to the consolidated financial statements.

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

The shares of the Company were listed on the Main Board of the Stock Exchange on 13 February 2018 by way of Global Offering.

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date up to 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the applicable laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

TAX RELIEF

The Company is not aware of any tax relief available for the Shareholders by reason of their holding of the Shares.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the period from the Listing Date to the date of this report as required under the Listing Rules.

CORPORATE GOVERNANCE

During the period from the Listing Date to 31 December 2018, the Directors are of the opinion that the Company has complied with all the code provisions set out in the CG Code under Appendix 14 of the Listing Rules. Details of corporate governance report are set out on pages 32 to 44 of this annual report.

EMOLUMENT POLICY

The employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications and competence.

The emoluments of the Director are reviewed and recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. Details of the Directors' remuneration are set out in note 9 to the consolidated financial statements.

The Company has adopted a share option scheme as an incentive to eligible persons, details are set out under the heading "Share Option Scheme" in this report.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, there were no other important events affecting the Group that had occurred after 31 December 2018 and up to the date of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Messrs. Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Kuok Lam Sek
Chairman

Hong Kong, 28 March 2019

Deloitte. 德勤

TO THE SHAREHOLDERS OF
MECOM POWER AND CONSTRUCTION LIMITED
澳能建設控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of MECOM Power and Construction Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 64 to 135, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from construction contracts	
We identified the recognition of revenue from construction contracts as a key audit matter as it is quantitatively significant to the consolidated financial statements as a whole. As disclosed in note 5 to the consolidated financial statements, the Group has recognised revenue from construction contracts amounting to MOP508,938,000 for the year ended 31 December 2018. The Group recognises revenue from construction contracts by reference to the progress towards complete satisfaction of relevant performance obligation using output method.	In relation to the recognition of revenue from construction contracts, we performed the following procedures, on a sample basis: • Obtaining an understanding of the control over recognition of revenue from construction contracts; • Agreeing the contract sum and variation orders to respective signed contracts and the correspondence with customers; • Discussing with the project managers to understand the status of completion of the relevant construction projects and the reasons for the change of budget contract value during the year; • Challenging the management's assessment on the Group's ability to deliver contracts within budgeted timescales by inspecting the certificates issued by customers and comparing the progress with the budgeted timeline; and • Evaluating the reasonableness of progress towards complete satisfaction of relevant performance obligation of construction contracts as at year end by obtaining the certificates issued by customers and performing site visits to the construction sites.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Fung Hin Chiu.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 MOP'000	2017 MOP'000
Revenue	5	**597,572**	658,746
Cost of services		**(487,289)**	(531,436)
Gross profit		**110,283**	127,310
Other income	6	**4,390**	465
Other losses	7	**—***	(23)
Administrative expenses		**(35,930)**	(27,467)
Listing expenses		**(14,424)**	(13,617)
Share of profit of an associate		**26**	—
Profit before tax		**64,345**	86,668
Income tax expense	11	**(9,331)**	(8,474)
Profit and total comprehensive income for the year	8	**55,014**	78,194
Basic and diluted earnings per share (MOP cents)	12	**4.70**	8.15

* Less than MOP1,000

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 MOP'000	2017 MOP'000
Non-current assets			
Property, plant and equipment	13	**17,451**	15,630
Deposit paid for property, plant and equipment		**8,245**	—
Interest in an associate	14	**26**	—
		25,722	15,630
Current assets			
Contract assets	15	**29,863**	—
Amounts due from customers for contract works	16	**—**	6,070
Debtors, deposits and prepayments	17	**154,393**	98,610
Amounts due from related companies	18	**59,802**	105,679
Amounts due from shareholders	19	**—**	46
Pledged bank deposits	20	**22,649**	41,108
Fixed bank deposits	20	**214,858**	—
Bank balances and cash	20	**100,314**	165,882
		581,879	417,395
Current liabilities			
Amounts due to customers for contract works	16	**—**	8,478
Amounts due to related companies	18	**129**	2,739
Amounts due to shareholders	19	**—**	5,021
Creditors and accrued charges	21	**126,475**	178,779
Tax liabilities		**29,848**	36,076
		156,452	231,093
Net current assets		**425,427**	186,302
Net assets		**451,149**	201,932
Capital and reserves			
Share capital	22	**12,360**	—*
Reserves		**438,789**	201,932
Total equity		**451,149**	201,932

* Less than MOP1,000

The consolidated financial statements on pages 64 to 135 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Kuok Lam Sek
DIRECTOR

Sou Kun Tou
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital MOP'000	Share premium MOP'000	Share options reserve MOP'000	Legal reserve MOP'000 (Note a)	Other reserve MOP'000 (Note b)	Retained earnings MOP'000	Total MOP'000
At 1 January 2017	90	—	—	45	—	164,803	164,938
Profit and total comprehensive income for the year	—	—	—	—	—	78,194	78,194
Shares issued at date of incorporation (note 22)	—*	—	—	—	—	—	—*
Shares issued upon reorganisation and effect of reorganisation (notes 1 and 22)	(90)	147,204	—	—	(147,114)	—	—*
Dividend paid (note 10)	—	—	—	—	—	(41,200)	(41,200)
At 31 December 2017	—*	147,204	—	45	(147,114)	201,797	201,932
Adjustments (notes 2.1 and 2.2)	—	—	—	—	—	(5,892)	(5,892)
At 1 January 2018 (adjusted)	**—***	**147,204**	**—**	**45**	**(147,114)**	**195,905**	**196,040**
Profit and total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**55,014**	**55,014**
Issue of shares pursuant to capitalisation issue (note 22)	**9,888**	**(9,888)**	**—**	**—**	**—**	**—**	**—**
Issue of shares pursuant to public offering (note 22)	**2,472**	**306,528**	**—**	**—**	**—**	**—**	**309,000**
Share issue costs	**—**	**(15,190)**	**—**	**—**	**—**	**—**	**(15,190)**
Share-based compensation expenses (note 23)	**—**	**—**	**1,457**	**—**	**—**	**—**	**1,457**
Dividend paid (note 10)	**—**	**—**	**—**	**—**	**—**	**(95,172)**	**(95,172)**
At 31 December 2018	**12,360**	**428,654**	**1,457**	**45**	**(147,114)**	**155,747**	**451,149**

Note a: In accordance with provision of the Macau Commercial Code, the subsidiaries incorporated in Macau Special Administrative Region ("Macau") is required to transfer a minimum of 25% of the profit after taxation each year to the legal reserve until the balance meet 50% of their registered capital. The reserve is not distributable to shareholders.

Note b: The balance of other reserve represents the difference between the aggregate share capital of MOP90,000 of EHY Construction and Engineering Company Limited ("EHY") and Sun Hung Yip Engineering Construction Company Limited ("SHY") and the consideration of MOP147,204,000 satisfied by way of issue of shares by the Company for the acquisition of EHY and SHY by MECOM EHY Limited ("MECOM EHY") and MECOM Sun Hung Yip Limited ("MECOM Sun Hung Yip") respectively, pursuant to the reorganisation which was completed on 31 May 2017 in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Reorganisation").

* Less than MOP1,000

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 MOP'000	2017 MOP'000
OPERATING ACTIVITIES		
Profit before tax	**64,345**	86,668
Adjustments for:		
Depreciation of property, plant and equipment	**4,998**	4,881
Bank interest income	**(4,222)**	(465)
Share of profit of an associate	**(26)**	—
Share-based compensation expenses	**1,457**	—
Loss on disposal of property, plant and equipment	**2**	—
Impairment losses recognised, net of reversal	**345**	—
Operating cash flows before movements in working capital	**66,899**	91,084
(Increase) decrease in debtors, deposits and prepayments	**(75,391)**	1,510
Decrease (increase) in amounts due from related companies	**28,267**	(105,147)
Decrease in contract assets	**3,685**	—
Decrease in amounts due from customers for contract works	**—**	4,095
(Decrease) increase in creditors and accrued charges	**(56,673)**	97,063
Increase in amounts due to customers for contract works	**—**	877
Decrease in contract liabilities	**(682)**	—
Increase (decrease) in amount due to a related company	**5**	(9,142)
Cash (used in) generated from operations	**(33,890)**	80,340
Income tax paid	**(15,559)**	(16,506)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(49,449)**	63,834
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(6,821)**	(4,629)
Advances to related companies	**(3,235)**	(11,591)
Repayments from related companies	**927**	34,497
Repayments from shareholders	**46**	26,414
Placement of pledged bank deposits	**(5,441)**	(28,887)
Withdrawal of pledged bank deposits	**23,900**	14,236
Deposit paid for property, plant and equipment	**(8,245)**	—
Interest received	**4,222**	465
Placement of fixed bank deposits	**(238,638)**	—
Withdrawal of fixed bank deposits	**23,780**	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(209,505)**	30,505
FINANCING ACTIVITIES		
Advances from shareholders	**—**	5,021
Repayments to shareholders	**(5,021)**	—
Advances from related companies	**—**	2,739
Repayment to related companies	**(2,615)**	—
Share issue costs paid	**(12,806)**	(2,384)
Dividend paid	**(95,172)**	(41,200)
Proceeds from issue of shares	**309,000**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**193,386**	(35,824)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(65,568)**	58,515
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**165,882**	107,367
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Represented by bank balances and cash	**100,314**	165,882

1. GENERAL

MECOM Power and Construction Limited (the "Company") was incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is MECOM Holding Limited ("MECOM Holding"). Its registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is located at Units Q, R and S, 6/F, Praca Kin Heng Long-Heng Hoi Kuok, Kin Fu Kuok, No. 258 Alameda Dr. Carlos D'Assumpcao, Macau.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in provision of construction services, including construction and fitting out works, and high voltage power substation construction and its system installation works; and provision of facilities management services.

The consolidated financial statements are presented in Macau Pataca ("MOP"), which is the same as the functional currency of the Company.

From 1 January 2017 until 31 May 2017, the date of completion of the Reorganisation, the main operating activities including construction and civil engineering services were carried out by EHY and SHY. Both companies were under control of Mr. Sou Kun Tou ("Mr. Sou"), Mr. Kuok Lam Sek ("Mr. Kuok"), Mr. Lam Kuok Wa ("Mr. Lam") and Mr. Lao Ka Wa ("Mr. Lao") (collectively referred to as the "Controlling Shareholders"). Mr. Sou, Mr. Kuok, Mr. Lam and Mr. Lao have 35%, 35%, 15% and 15%, respectively, beneficial interest in each of EHY and SHY.

Pursuant to the Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange (the "Listing"), the Company has become the holding company of its operating subsidiaries including EHY and SHY on 31 May 2017. The Group underwent the Reorganisation, comprised with the following steps:

(i) MECOM Holding, was incorporated in the British Virgin Islands on 28 April 2017 and the authorised share capital of MECOM Holding was 50,000 ordinary shares with a par value of HK$1.00 each. Upon incorporation, 35 shares, 35 shares, 15 shares and 15 shares were allotted and issued to Mr. Sou, Mr. Kuok, Mr. Lam and Mr. Lao, respectively.

(ii) The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 May 2017 to act as the holding company of the Group for the Listing. The initial authorised share capital of the Company was HK$380,000 divided into 38,000,000 ordinary shares with a par value of HK$0.01 each. Upon incorporation, 1,000 Shares, representing the entire issued share capital of the Company, were allotted and issued to MECOM Holding.

1. GENERAL (Continued)

(iii) MECOM EHY, MECOM Hung Yip Limited ("MECOM Hung Yip") and MECOM Sun Hung Yip were incorporated in the British Virgin Islands on 10 May 2017 and the authorised share capital of MECOM EHY, MECOM Hung Yip and MECOM Sun Hung Yip were 10,000 ordinary shares with a par value of HK$1.00 each. Upon incorporation, one fully paid share was allotted and issued to the Company at par.

(iv) On 31 May 2017, MECOM EHY acquired 50% of the share capital of EHY from each of Mr. Sou (who beneficially owned 35% and held 15% of the share capital on trust for Mr. Lam) and Mr. Kuok (who beneficially owned 35% and held 15% of the share capital on trust for Mr. Lao) at the consideration of MOP57,404,932 and MOP57,404,932, which was determined with reference to net asset value of EHY as at 30 April 2017. The consideration for the above transfers was settled by the Company allotting and issuing 500 shares of the Company to MECOM Holding (as directed by Mr. Sou, Mr. Kuok, Mr. Lam and Mr. Lao) on the same day. Upon completion of such transfers, EHY became a direct wholly-owned subsidiary of MECOM EHY.

(v) On 31 May 2017, MECOM Sun Hung Yip acquired 35%, 35%, 15% and 15% of the share capital in SHY from Mr. Sou, Mr. Kuok, Mr. Lam and Mr. Lao, respectively, at the consideration of MOP32,393,744, which was determined with reference to net asset value of SHY as at 30 April 2017. The consideration for the above transfers were settled by the Company allotting and issuing 500 shares of the Company to MECOM Holding (as directed by Mr. Sou, Mr. Kuok, Mr. Lam and Mr. Lao) on the same day. Upon completion of such transfers, SHY became a direct wholly-owned subsidiary of MECOM Sun Hung Yip.

(vi) On 2 June 2017, MECOM Holding entered into a pre-IPO agreement with each of King Dragon Ventures Limited (the "King Dragon") and One Wesco Inc. (the "One Wesco"), pursuant to which MECOM Holding agreed to sell (a) 588 shares of the Company to the King Dragon at a consideration of HK$10,800,000; and (b) 160 shares of the Company to the One Wesco at a consideration of HK$2,938,776.

The Company became the holding company of the companies comprising the Group on 31 May 2017. Since the Controlling Shareholders controls all the companies now comprising the Group from 1 January 2017 to 31 May 2017, the date of completion of the Reorganisation, the Group comprising the Company and its subsidiaries is regards as a continuing entity. The consolidated financial statements has been prepared on the basis as if the Company has always been the holding company of the Group using the principle of merger accounting in accordance with the convention applicable for Reorganisation.

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 are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred to as the "Group") has applied the following new and amendments to IFRSs and an interpretation issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

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

Except as described below, the application of the amendments to IFRSs and an 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.

2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

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

- Construction and fitting out works;
- High voltage power substation construction and its system installation works; and
- Facilities management services.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3 respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15

The following table summarises the impacts of transition to IFRS 15 on retained earnings at 1 January 2018.

	MOP'000
Retained earnings	
Construction costs in relation to revenue recognised over time	(2,951)

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 MOP'000	Reclassification MOP'000	Adjustment MOP'000	Carrying amounts under IFRS 15 at 1 January 2018 MOP'000
Current assets					
Contract assets	(b)	—	33,897	—	33,897
Amounts due from customers for contract works	(a)	6,070	—	(6,070)	—
Debtors, deposits and prepayments	(b)	98,610	(14,622)	—	83,988
Amounts due from related companies	(b)	105,679	(19,275)	—	86,404
Current liabilities					
Contract liabilities	(c)	—	682	—	682
Amounts due to customers for contract works	(a)	8,478	(5,359)	(3,119)	—
Creditors and accrued charges	(c)	178,779	4,677	—	183,456
Capital and reserves					
Reserves	(a)	201,932	—	(2,951)	198,981

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Notes:

(a) In relation to construction contracts previously accounted under IAS 11, the Group continues to apply output method in estimating the performance obligations satisfied up to date of initial application of IFRS 15. Under IAS 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 IFRS 15, costs that related to satisfy performance obligations are expensed as incurred. As a result, construction costs of MOP6,070,000 and MOP3,119,000 that have been incurred but deferred to be recognised in profits or loss under IAS 11 included in amounts due from/to customers for contract works were adjusted to retained earnings. MOP5,359,000 of amounts due to customers for contract works was reclassified to creditors and accrued charges.

(b) At the date of initial application, retention receivables of MOP14,622,000 and MOP19,275,000 previously included in debtors, deposits and prepayments and amounts due from related companies were reclassified to contract assets.

(c) At the date of initial application, receipt in advance of MOP682,000 previously included in creditors and accrued charges was reclassified to contract liabilities.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018, its consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Notes	**As reported** MOP'000	**Reclassification** MOP'000	**Adjustment** MOP'000	**Amounts without application of IFRS 15** MOP'000
Current assets					
Contract assets	(a)	29,863	(29,863)	—	—
Amounts due from customers for contract works	(b)	—	—	1,002	1,002
Debtors, deposits and prepayments	(a)	154,393	18,432	—	172,825
Amounts due from related companies	(a)	59,802	11,431	—	71,233
Current liabilities					
Amounts due to customers for contract works	(b)	—	—	3,257	3,257
Capital and reserves					
Reserves	(b)	438,789	—	(2,255)	436,534

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

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

	Note	As reported MOP'000	Adjustment MOP'000	Amounts without application of IFRS 15 MOP'000
Revenue		597,572	—	597,572
Cost of services	(b)	(487,289)	(5,206)	(492,495)
Gross profit		110,283	(5,206)	105,077
Other income		4,390	—	4,390
Administrative expenses		(35,930)	—	(35,930)
Listing expenses		(14,424)	—	(14,424)
Share of profit of an associate		26	—	26
Profit before tax		64,345	(5,206)	59,139
Income tax expense		(9,331)	—	(9,331)
Profit and total comprehensive income for the year		55,014	(5,206)	49,808

Notes:

(a) Prior to application of IFRS 15, retention receivables of MOP18,432,000 and MOP11,431,000 at 31 December 2018 were included in debtors, deposits and prepayments and amounts due from related companies, respectively. Such amounts were reclassified to contract assets upon application of IFRS 15.

(b) Prior to application of IFRS 15, the difference between the actual construction costs incurred and the amount calculated based on the stage of completion of the contract activity, which is by reference to the estimated total revenue for contracts entered into by the Group that have been performed to date, was included in amounts due from/to customers for contract works. The accumulated difference in the recognition of the construction costs under IAS 11 and IFRS 15 at 31 December 2018 was MOP5,206,000 and including in such difference MOP1,002,000 would be recognised as amounts due from customers for contract works and HK$3,257,000 would be recognised as amounts due to customers for contract works prior to application of IFRS 15. Upon application of IFRS 15, for the accumulated difference in the recognition of the construction costs to profit or loss under IAS 11 and IFRS 15, MOP2,255,000 has been credited to retained earnings as at 31 December 2018 and MOP5,206,000 has been credited to cost of services for the current year.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

Impact on the consolidated statement of cash flows

	As reported MOP'000	Adjustment MOP'000	Amounts without application of IFRS 15 MOP'000
OPERATING ACTIVITIES			
Profit before tax	64,345	(5,206)	59,139
Adjustments for:			
Depreciation of property, plant and equipment	4,998	—	4,998
Bank interest income	(4,222)	—	(4,222)
Share of profit of an associate	(26)	—	(26)
Share-based compensation expenses	1,457	—	1,457
Loss on disposal of property, plant and equipment	2	—	2
Impairment losses recognised, net of reversal	345	—	345
Operating cash flows before movements in working capital	66,899	(5,206)	61,693
Increase in debtors, deposits and prepayments	(75,391)	(4,016)	(79,407)
Decrease in amounts due from related companies	28,267	7,701	35,968
Decrease in amounts due from customers for contract works	—	5,068	5,068
Decrease in contract assets	3,685	(3,685)	—
Decrease in creditors and accrued charges	(56,673)	(682)	(57,355)
Decrease in contract liabilities	(682)	682	—
Increase in amount due to a related company	5	—	5
Increase in amounts due to customers for contract works	—	138	138
Cash used in operations	(33,890)	—	(33,890)
Income tax paid	(15,559)	—	(15,559)
NET CASH USED IN OPERATING ACTIVITIES	(49,449)	—	(49,449)

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 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 contracts assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 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 retained earnings and other components of equity, without restating comparative information.

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

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables (including trade-nature amounts due from related companies) and contract assets. The ECL on these assets are assessed individually for debtors with significant balances. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

ECL for other financial assets at amortised cost, including other receivables, non-trade nature amounts due from related companies, pledged bank deposits, fixed bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of MOP2,941,000 has been recognised against retained earnings. The additional loss allowance is charged against the respective assets.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.2 IFRS 9 Financial Instruments (Continued)

All loss allowances, including contract assets, trade receivables and trade-nature amounts due from related companies as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Debtors, deposits and prepayments MOP'000	Trade-nature amounts due from related companies MOP'000	Contract assets MOP'000	Total MOP'000
At 31 December 2017	76,396	85,872	—	162,268
Effect arising from initial application of IFRS 15	—	—	33,897	33,897
Remeasurement — Impairment under ECL model	(1,236)	(1,187)	(518)	(2,941)
Opening balance at 1 January 2018	75,160	84,685	33,379	193,224

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 show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) MOP'000	IFRS 15 MOP'000	IFRS 9 MOP'000	1 January 2018 (Restated) MOP'000
Current assets				
Contract assets	—	33,897	(518)	33,379
Amounts due from customers for contract works	6,070	(6,070)	—	—
Debtors, deposits and prepayments	98,610	(14,622)	(1,236)	82,752
Amounts due from related companies	105,679	(19,275)	(1,187)	85,217
Current liabilities				
Contract liabilities	—	682	—	682
Amounts due to customers for contract works	8,478	(8,478)	—	—
Creditors and accrued charges	178,779	4,677	—	183,456
Capital and reserves				
Reserves	201,932	(2,951)	(2,941)	196,040

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 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 1January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combination and asset acquisitions for which 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 a date to be determined

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective (Continued)

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 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, operating lease payments are presented as operating cash flows. Upon application of IFRS 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, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 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 IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately MOP215,000 as disclosed in note 24. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 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.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective (Continued)

IFRS 16 Leases (Continued)

In addition, the Group currently considers refundable rental deposits paid of MOP347,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 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 intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 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 IAS 17 and IFRIC 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 IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IFRS 9/IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2.1)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2.1) (Continued)

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional (i.e. retention money). It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue from construction contracts

Revenue from construction contracts is recognised over time during the course of construction by reference to the progress towards complete satisfaction of relevant performance obligation at the end of the reporting period. The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

For construction contracts that contain variable consideration such as variations in contract work, claims and incentive payment, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled. The estimated amount of variable consideration is included in the transactions price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2.1) (Continued)

Revenue from provision of services

Revenue from facilities management, alteration and maintenance works and services are provided as a fixed-price contract, with contract terms generally ranging from less than one year to two years. Revenue from fixed price contracts for delivering such services is recognised over time, when the customers simultaneously receive and consume the benefits from the Group's performance. Such services are recognised using a straight-line basis over the term of the contract.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from construction contracts is described in the accounting policy on construction contracts below. Facilities management, alteration and maintenance works and services income is recognised when service is provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the construction works performed, which are certified by customers, relative to the estimated total contract sum. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract works. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract works. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under debtors, deposits and prepayments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to directors of the Company and employees of the Group

Equity-settled share-based payments to directors of the Company and employees of the Group are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees measured at the fair value of the goods or service received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the services. The fair values of the goods or services received are recognised as expenses.

Retirement benefits costs

Payments to the defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service, entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables (including trade-nature amounts due from related companies) arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset of financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2.2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2.2) (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, contract assets, amounts due from related companies, pledged bank deposits, fixed bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables (including trade-nature amounts due from related companies) and contract assets. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2) (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)
Financial assets are classified as loans and receivables.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debtors, deposits, amounts due from shareholders, amounts due from related companies, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including creditors and accrued charges, amounts due to shareholders and amounts due to related companies) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as gains immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade and retention receivables (including trade-nature amounts due from related companies) and contract assets

Before the application of IFRS 9, the management estimates the recoverability of trade and retention receivables based on objective evidence. When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Upon application of IFRS 9, the Group accesses ECL for all trade receivables (including trade-nature amounts due from related companies) and contract assets individually for debtors with significant balances. The provision rates are based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables, trade-nature amounts due from related companies and contract assets are disclosed in notes 17, 18 and 15 respectively.

5. REVENUE AND SEGMENT INFORMATION

The Group's revenue represents the amount received and receivable for revenue arising on (1) construction and fitting out works, (2) high voltage power substation construction and its system installation works, and (3) facilities management services.

Information reported to the executive directors, being the chief operating decision maker ("CODM"), for the purpose of resources allocation and performance assessment, review the overall results and financial position of the Group as a whole prepared based on same accounting policies set out in note 3. Accordingly, the Group has only one single operating and reportable segment and no further discrete financial information nor analysis of this single segment is presented.

The disaggregated revenue is set out below:

	2018 **MOP'000**	2017 MOP'000
Revenue from construction contracts		
Construction and fitting out works	**333,559**	507,138
High voltage power substation construction and its system installation works	**175,379**	91,405
	508,938	598,543
Provision of service income		
Facilities management services	**88,634**	60,203
	597,572	658,746
Timing of revenue recognition		
Over time	**597,572**	658,746

Construction and fitting out works, and high voltage power substation construction and its system installation works

The Group provides services on (1) construction and fitting out works, and (2) high voltage power substation construction and its system installation works to customers. Construction and fitting out works mainly include structural steelworks services, civil engineering construction services and fitting out and renovation works. Structural steelworks services generally involve the provision of customised and target-oriented steel structure erection services including structural steelworks construction, concreting and builder works, and combination of the different services to turn out a highly efficient structure. Civil engineering construction services generally cover demolition, ground field investigation, site formation and foundation works, as well as substructures and superstructures, roads and drainage. Fitting out and renovation works generally involve provision of alteration, renovation and upgrading works of various types, including preparation of shop drawings, modification, removal and installation of equipment and general renovation works. The Group's high voltage power substation construction and relevant system installation works involve the provision of planning, scheduling, project management and construction services to customised high-voltage substations and complex power transmission infrastructure installed with high voltage power system.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Construction and fitting out works, and high voltage power substation construction and its system installation works (Continued)

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 by reference to the progress towards complete satisfaction of relevant performance obligation using output method.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the construction services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which ranges from one to two years from the date of the practical completion of the construction. The relevant amount of contract asset is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the construction services performed comply with agreed upon specifications and such assurance cannot be purchased separately.

Facilities management services

The Group's facilities management services involve the provision of facilities operation and maintenance management, alteration, upgrading, maintenance works and emergency repairs of various buildings, properties and their components (especially for hotels and resorts) and high voltage power substations and relevant systems.

The Group provides such services as a fixed-price contract, with contract terms generally ranging from less than one year to five years. Revenue from fixed price contracts for delivering such services is recognised over time, when the customers simultaneously receive and consume the benefits from the Group's performance. Such services are recognised using a straight-line basis over the term of the contract.

No analysis of the Group's assets and liabilities is disclosed as such information is not regularly provided to the CODM for review.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Construction and fitting out works MOP'000	High voltage power substation construction and its system installation works MOP'000	Facilities management services MOP'000
Within one year	31,250	82,479	67,112
More than one year but not more than two years	—	54,514	29,616
	31,250	136,993	96,728

Geographical information

The Group's revenue is all derived from operations in Macau and the Group's non-current assets are all located in Macau.

Information about major customers

Revenue from customers in respect construction and fitting out works, and high voltage power substation construction and its system installation works and facilities management services of the years contributing over 10% of the total revenue of the Group is as follows:

	2018 MOP'000	2017 MOP'000
Customer A	**209,985**	395,756
Customer B	**155,385**	66,713
Customer C	**65,185**	N/A*
Customer D	**N/A***	71,213

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

6. OTHER INCOME

	2018 MOP'000	2017 MOP'000
Bank interest income	**4,222**	465
Others	**168**	—
	4,390	465

7. OTHER LOSSES

	2018 MOP'000	2017 MOP'000
Net foreign exchange loss	**—***	23

* less than MOP1,000

8. PROFIT FOR THE YEAR

	2018 **MOP'000**	2017 MOP'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (including share-based compensation expenses of MOP471,000) (note 9)	**9,236**	4,900
Other staff costs:		
Salaries, bonus and other allowances	**93,972**	109,970
Share-based compensation expenses	**197**	—
Retirement benefit scheme contributions	**687**	1,226
Total staff costs	**104,092**	116,096
Less: amounts included in cost of services	**(83,817)**	(98,387)
	20,275	17,709
Impairment losses recognised (reversed) on:		
— Trade receivables	**1,058**	—
— Contract assets	**(169)**	—
— Trade-nature amounts due from related companies	**(544)**	—
	345	—
Auditor's remuneration	**1,598**	1,133
Depreciation of property, plant and equipment	**4,998**	4,881
Loss on disposal of property, plant and equipment	**2**	—
Share-based compensation expenses to consultants	**789**	—
Legal and professional fees	**1,306**	142
Minimum lease payment in respect of:		
— rental premises	**2,042**	1,969
— machineries and equipment	**538**	6,018

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

Year ended 31 December 2018

	Fee MOP'000	**Salaries and other allowances MOP'000**	**Retirement benefit scheme contributions MOP'000**	**Share-based compensation expenses MOP'000**	**Total MOP'000**
Executive directors (note 1):					
Mr. Kuok	**—**	**4,200**	**1**	**—**	**4,201**
Mr. Sou	**—**	**4,200**	**1**	**—**	**4,201**
	—	**8,400**	**2**	**—**	**8,402**
Independent non-executive directors (note 2):					
Ms. Chan Po Yi, Pasty	**121**	**—**	**—**	**157**	**278**
Mr. Cheung Kiu Cho, Vincent	**121**	**—**	**—**	**157**	**278**
Dr. Ngan Matthew Man Wong	**121**	**—**	**—**	**157**	**278**
	363	**—**	**—**	**471**	**834**
	363	**8,400**	**2**	**471**	**9,236**

Year ended 31 December 2017

	Fee MOP'000	Salaries and other allowances MOP'000	Discretionary bonus MOP'000	Retirement benefit scheme contributions MOP'000	Total MOP'000
Executive directors (note 1):					
Mr. Sou	—	2,100	350	—	2,450
Mr. Kuok	—	2,100	350	—	2,450
	—	4,200	700	—	4,900

Notes:

(1) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(2) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

The five highest paid employees of the Group during the year included two directors (2017: two), details of whose remuneration are set out above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 **MOP'000**	2017 MOP'000
Salaries and other allowances	**6,407**	5,261
Discretionary bonus (note)	**400**	3,602
Retirement benefit scheme contributions	**4**	6
	6,811	8,869

Note: The discretionary bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

The number of highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2018 **Number of** **employees**	2017 Number of employees
HK$1,500,001 to HK$2,000,001	**1**	—
HK$2,000,001 to HK$2,500,000	**2**	1
HK$2,500,001 to HK$3,000,000	**—**	1
HK$3,500,001 to HK$4,000,000	**—**	1

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

10. DIVIDENDS

During the year ended 31 December 2018, interim dividends of HK1.0 cents (equivalent to MOP1.03 cents) per share, which is HK$12,000,000 (equivalent to MOP12,360,000) in total, was declared and paid to the shareholders as the interim dividend for 2018.

During the year ended 31 December 2018, dividends of HK6.7 cents (equivalent to MOP6.9 cents) per share, which is HK$80,400,000 (equivalent to MOP82,812,000) in total, was declared and paid to the shareholders as the final dividend for 2017.

During the year ended 31 December 2017, prior to the Reorganisation, EHY and SHY declared and paid dividends of an aggregate amount of MOP41,200,000 to their shareholders.

Subsequent to the end of the reporting period, the board of directors has recommended a final dividend of HK3.4 cents (2017: HK6.7 cents) per share, totalling HK$40,800,000 (2017: HK$80,400,000), for the year ended 31 December 2018, to the shareholders of the Company. The final dividend is subject to shareholders' approval at the forthcoming annual general meeting.

11. INCOME TAX EXPENSE

	2018 **MOP'000**	2017 MOP'000
Current tax		
— Macau Complementary Tax	**9,869**	13,483
Overprovision in prior years	**(538)**	(5,009)
	9,331	8,474

The Company was incorporated in the Cayman Islands and is exempted from income tax.

The Group is subject to Macau Complementary Tax at a rate of 12% on the assessable income exceeding MOP600,000 for each of the assessment year.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 **MOP'000**	2017 MOP'000
Profit before tax	**64,345**	86,668
Tax charge at Macau Complementary Tax rate of 12% (2017 : 12%)	**7,721**	10,400
Tax effect of expenses not deductible for tax purpose	**2,292**	3,227
Overprovision in prior years	**(538)**	(5,009)
Special complementary tax incentive	**(144)**	(144)
Income tax expense for the year	**9,331**	8,474

12. EARNINGS PER SHARE

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

	2018 MOP'000	2017 MOP'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to the owners of the Company)	**55,014**	78,194
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**1,171,726**	960,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2017 has been determined on the assumption that the Reorganisation and the Capitalisation Issue (as defined in note 22) had been effective on 1 January 2017.

For the year ended 31 December 2018, the diluted earnings per share does not assume the effect from the Company's outstanding share options (note 23) as the exercise price of those options is higher than the average market price for shares from the grant date to 31 December 2018. For the year ended 31 December 2017, there was no potential ordinary shares in issue or outstanding.

13. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles MOP'000	Plant and machinery MOP'000	Office equipment MOP'000	Computer equipment MOP'000	Total MOP'000
COST					
At 1 January 2017	2,262	10,543	105	169	13,079
Additions	1,326	11,330	104	152	12,912
At 31 December 2017	**3,588**	**21,873**	**209**	**321**	**25,991**
Additions	**227**	**6,433**	**—**	**161**	**6,821**
Disposals	**—**	**—**	**(2)**	**(6)**	**(8)**
At 31 December 2018	**3,815**	**28,306**	**207**	**476**	**32,804**
DEPRECIATION					
At 1 January 2017	941	4,431	47	61	5,480
Provided for the year	438	4,375	25	43	4,881
At 31 December 2017	**1,379**	**8,806**	**72**	**104**	**10,361**
Provided for the year	**675**	**4,216**	**38**	**69**	**4,998**
Eliminated upon disposals	**—**	**—**	**(1)**	**(5)**	**(6)**
At 31 December 2018	**2,054**	**13,022**	**109**	**168**	**15,353**
CARRYING VALUE					
At 31 December 2018	**1,761**	**15,284**	**98**	**308**	**17,451**
At 31 December 2017	2,209	13,067	137	217	15,630

The property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their residual values, as follows:

Motor vehicles	20%
Plant and machinery	20%–33⅓%
Office equipment	20%
Computer equipment	20%

14. INTEREST IN AN ASSOCIATE

	2018 MOP'000	2017 MOP'000
Cost of investment in an associate	—	—
Share of past-acquisition profits and other comprehensive income	26	—
	26	—

Details of the Group's associate at the end of the reporting period are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group 2018	2017	Proportion of voting rights held by the Group 2018	2017	Principle activity
China Construction (Macau)— EHY Joint Venture ("CCM — EHY JV")	Macau	Macau	25%	—	25%	—	Construction works and civil engineering

Summarised financial information of the associate

Summarised financial information in respect of CCM — EHY JV is set out below. The summarised financial information below represents amount shown in the associate's financial statements prepared in accordance with IFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

14. INTEREST IN AN ASSOCIATE (Continued)

CCM — EHY JV

	2018 MOP'000	2017 MOP'000
Current and total assets	17,453	—
Current and total liabilities	(17,349)	—
Revenue	17,453	—
Profit for the year	104	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2018 MOP'000	2017 MOP'000
Net assets of CCM — EHY JV	104	—
Proportion of the Group's ownership interest in CCM — EHY JV	25%	—
The Group's share of net assets of CCM — EHY JV and carrying amount of Group's interest in CCM — EHY JV	26	—

15. CONTRACT ASSETS

	As at 31 December 2018 MOP'000	As at 1 January 2018* MOP'000
Construction and fitting out works	23,850	29,079
High voltage power substation construction and its system installation works	5,885	4,172
Facilities management services	128	128
	29,863	33,379

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

As at 31 December 2018, included in contract assets of MOP29,863,000 was allowance for credit losses of MOP349,000 (1 January 2018: MOP518,000).

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

Typical payment terms which impact on the amount of contract assets recognised are as follows:

Construction contracts

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits and typically netoffs the deposits with first payment.

The Group also typically agrees to a retention period ranging from one year to two years for 5% to 10% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on satisfying the defect liability period of individual contracts. The Group typically reclassifies contract asset to trade receivables when defect liability period expires.

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

15. CONTRACT ASSETS (Continued)

Construction contracts (Continued)

As at 31 December 2018, included in contract assets are retention money held by customers for contract works amounted to MOP29,863,000, of which MOP11,431,000 represented the retention money held by related companies. Retention money is unsecured, interest-free and recoverable at the end of the defect liability period of individual contract, ranging from 1 year to 2 years from the date of the completion of the respective project.

The following is an aging analysis of retention money which is to be settled, based on the expiry of defect liability period, at the end of the reporting period.

	2018
	MOP'000
Within one year	**14,188**
After one year	**15,675**
	29,863

Details of the impairment assessment are set out in note 28.

16. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORKS

	2017
	MOP'000
Construction in progress:	
Contract costs incurred plus recognised profits less recognised losses	511,666
Less: progress billing	(514,074)
	(2,408)
Analysed for reporting purposes as:	
Amounts due from customers for contract works	6,070
Amounts due to customers for contract works	(8,478)
	(2,408)

17. DEBTORS, DEPOSITS AND PREPAYMENTS

	2018 MOP'000	2017 MOP'000
Trade receivables	**150,443**	76,396
Less: Allowance for credit losses (note 28b)	**(2,294)**	—
	148,149	76,396
Retention receivables	**—**	14,622
Other debtors, deposits and prepayments		
— Deposits	**998**	1,028
— Prepayments	**4,219**	2,188
— Deferred share issue costs	**—**	2,692
— Others	**1,027**	1,684
	154,393	98,610

As at 31 December 2018 and 1 January 2018, the trade receivables from contract with customers amounted to MOP148,149,000 and MOP75,160,000, respectively.

As at 31 December 2017, retention receivables amount to MOP14,622,000, of which MOP4,640,000 are due after one year. Upon application of IFRS 15, the retention receivables were reclassified to contract assets.

Trade receivables

The Group allows credit period of 0 to 90 days to its customers. The aging analysis of the Group's trade receivables, net of allowance for credit losses, based on invoice date at the end of the reporting period are as follows:

	2018 MOP'000	2017 MOP'000
0–90 days	**94,594**	62,155
91–365 days	**50,137**	13,450
1–2 year	**3,388**	696
Over 2 years	**30**	95
	148,149	76,396

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of MOP60,458,000 which are past due as at the reporting date. Out of the past due balances, MOP30,430,000 has been past due more than 90 days and is not considered as in default. The Group does not hold any collateral over these balances.

17. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Trade receivables (Continued)

As at 31 December 2017, 59% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of MOP31,399,000, which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	2017 MOP'000
0–90 days	20,545
91–365 days	10,553
1–2 year	206
Over 2 years	95
	31,399

Retention receivables

Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from 1 year to 2 years from the date of the completion of the respective project.

The following is an aging analysis of retention receivables which are to be settled, based on the expiry of defect liability period, at the end of the reporting period.

	2017 MOP'000
On demand or within one year	9,982
After one year	4,640
	14,622

As at 31 December 2017, included in the Group's retention receivables are debtors with a carrying amount of MOP3,818,000, which are past due but not impaired. The Group does not hold any collateral over these balances.

18. AMOUNTS DUE FROM (TO) RELATED COMPANIES

	At 31 December		Maximum amount outstanding during	
	2018	2017	**2018**	2017
	MOP'000	MOP'000	**MOP'000**	MOP'000
Non-trade nature				
Amounts due from related companies				
Lei Hong Engineering Limited (note a)	**310**	—	**703**	21,683
ACEL Engineering Company Limited (note a)	**2,530**	532	**3,064**	13,171
	2,840	532		
Trade nature				
Amounts due from related companies				
CCM — EHY JV (note b)				
— Trade receivables	**15,603**	—		
Melco Resorts & Entertainment Limited (note c)				
— Trade receivables	**42,002**	85,872		
— Retention receivables	**—**	19,275		
	57,605	105,147		
Less: Allowance for credit losses (note 28b)	**(643)**	—		
	56,962	105,147		
	59,802	105,679		

As at 31 December 2018 and 1 January 2018, trade-nature amounts due from related companies amounted to MOP56,962,000 and MOP84,685,000, respectively.

The Group typically allows a credit period of 30 to 45 days to its related companies. The following is an aging analysis of the amounts due from related companies (trade receivables), presented based on invoice date at the end of the reporting period.

	2018	2017
	MOP'000	MOP'000
0–90 days	**45,154**	84,219
91–365 days	**11,024**	1,653
1–2 years	**784**	—
	56,962	85,872

18. AMOUNTS DUE FROM (TO) RELATED COMPANIES (Continued)

As at 31 December 2018, included in the Group's amounts due from to related companies (trade receivables) are receivables with a carrying amount of MOP21,928,000 which are past due as at the reporting date. Out of the past due balances, MOP11,481,000 has been past due more than 90 days and is not considered as in default. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in Group's amounts due from to related companies (trade receivables) are receivables with a carrying amount of MOP5,397,000, which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of amounts due from related companies which are past due but not impaired:

	2017 MOP'000
0–90 days	5,233
91–365 days	164
	5,397

Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, representing one year from the date of the completion of the respective project.

The following is an aging analysis of the amounts due from a related company (retention receivables) which are to be settled, based on the expiry of defect liability period, at the end of the reporting period.

	2017 MOP'000
On demand or within one year	896
After one year	18,379
	19,275

As at 31 December 2017, retention receivables amount to MOP19,275,000, of which MOP18,379,000 are due after one year. The Group does not hold any collateral over these balances. Upon application of IFRS 15, the retention receivables were reclassified to contract assets.

18. AMOUNTS DUE FROM (TO) RELATED COMPANIES (Continued)

	2018 MOP'000	2017 MOP'000
Non-trade nature		
Amounts due to related companies		
Lei Hong Engineering Limited (note a)	—	405
ACEL Engineering Company Limited (note a)	—	2,334
Black Spade Capital Limited (note c)	124	—
	124	2,739
Trade nature		
Amount due to a related company		
Autoduct (Macao) E & M engineering Co., Ltd (note a)	5	—
	129	2,739

The credit period on the trade payables is 0 to 90 days. The following is an aging analysis of the trade payables from related companies presented based on invoice date at the end of the reporting period.

	2018 MOP'000	2017 MOP'000
Within 90 days	5	—

Notes:

(a) The Controlling Shareholders have beneficial interests over these related companies.

(b) CCM — EHY JV is an associate of the Group.

(c) Mr. Ho, Lawrence Yau Lung. a substantial shareholder of the Company, has beneficial interests over the related company.

As at the end of the reporting period, the non-trade amounts with related companies are unsecured, interest-free and repayable on demand.

19. AMOUNTS DUE FROM (TO) SHAREHOLDERS

Shareholders	Terms	At 31 December 2018 MOP'000	At 31 December 2017 MOP'000	At 1 January 2017 MOP'000	Maximum amount outstanding during 2018 MOP'000	Maximum amount outstanding during 2017 MOP'000
Amounts due from shareholders						
Non-trade nature						
Mr. Sou	Unsecured, interest-free and repayable on demand	–	38	38	–	38
Mr. Kuok	Unsecured, interest-free and repayable on demand	–	—	13,923	–	13,923
Mr. Lam	Unsecured, interest-free and repayable on demand	–	—	12,491	–	12,491
Mr. Lao	Unsecured, interest-free and repayable on demand	–	8	8	–	8
		–	46	26,460		
Amounts due to shareholders						
Non-trade nature						
Mr. Kuok	Unsecured, interest-free and repayable on demand	–	1,938			
Mr. Lam	Unsecured, interest-free and repayable on demand	–	3,083			
		–	5,021			

20. PLEDGED BANK DEPOSITS/FIXED BANK DEPOSITS/BANK BALANCES AND CASH

	2018 **MOP'000**	2017 MOP'000
Pledged bank deposits	**22,649**	41,108
Fixed bank deposits	**214,858**	—
Bank balances and cash	**100,314**	165,882

Pledged bank deposits represent fixed-rate bank deposits which are pledged to secure bank guarantee to the Group. As at 31 December 2018, the pledged bank deposits carried interest rate range of 0.5%–2.4% (2017: 0.2%–1.3%) per annum and with an original maturity of three months to one year.

As at 31 December 2018, the fixed bank deposits carried interest rate range of 2.3%–2.6% (2017: nil) per annum and with an original maturity of three months to six months and bank balances carry interest at prevailing market rates at 0.01% (2017: 0.01%) per annum.

The carrying amount of the Group's pledged bank deposits, fixed bank deposits and bank balances and cash denominated in a currency other than functional currency of the relevant group entities at the reporting date is as follows:

	2018 **MOP'000**	2017 MOP'000
HK$	**286,202**	159,286

Details of impairment assessment of pledged bank deposits, fixed bank deposits and bank balances for the year ended 31 December 2018 are set out in note 28.

21. CREDITORS AND ACCRUED CHARGES

	2018 MOP'000	2017 MOP'000
Trade payables	**36,438**	79,572
Retention payables	**5,135**	1,240
Other creditors and accrued charges		
— Accrued staff costs	**13,855**	19,827
— Accrued construction costs	**61,881**	72,077
— Accrued listing expenses	**—**	1,540
— Other accruals	**9,166**	3,841
— Receipt in advance	**—**	682
	126,475	178,779

Upon application of IFRS 15, receipt in advance amount to MOP682,000 as at 31 December 2017 was reclassified to contract liabilities.

The credit period on trade purchases is 0 to 90 days. Aging analysis of the Group's trade payables based on invoice dates at the end of the reporting period is as follows:

	2018 MOP'000	2017 MOP'000
0–90 days	**36,035**	73,279
91–365 days	**403**	5,133
1–2 years	**—**	1,160
	36,438	79,572

Retention payables are interest-free and payable at the end of the defect liability period of individual contracts, ranging from one to two years from the date of the completion of the respective project.

The following is an aging analysis of retention payables which are to be settled, based on the expiry of the defect liability period, at the end of the reporting period.

	2018 MOP'000	2017 MOP'000
On demand or within one year	**1,344**	1,240
After one year	**3,791**	—
	5,135	1,240

22. SHARE CAPITAL

	Number of shares	Amount MOP'000
Ordinary shares of HK$0.01 each		
Authorised:		
On date of incorporation on 8 May 2017 and at 31 December 2017	38,000,000	391
Increase in authorised share capital	4,962,000,000	51,109
At 31 December 2018	5,000,000,000	51,500
Issued and fully paid:		
At 8 May 2017 (date of incorporation) (note a)	1,000	—*
Issue of shares on 31 May 2017 pursuant to the Reorganisation (note b)	1,000	—*
At 31 December 2017	2,000	—*
Issue of shares pursuant to Capitalisation Issue (note c)	959,998,000	9,888
Issue of shares pursuant to public offering (note d)	240,000,000	2,472
At 31 December 2018	**1,200,000,000**	**12,360**

* Less than MOP1,000.

Notes:

(a) The Company was incorporated on 8 May 2017 in the Cayman Islands with an authorised share capital of HK$380,000 (equivalent to MOP391,400) divided into 38,000,000 ordinary shares of HK$0.01 each. Upon incorporation, 1,000 shares, representing the entire issued share capital of the Company, were allotted and issued.

(b) On 31 May 2017, 500 shares were allotted, issued and credited as fully paid to MECOM Holding to settle the consideration of MOP114,809,864 for the acquisition of the entire share capital of EHY. On 31 May 2017, 500 shares were allotted, issued and credited as fully paid to MECOM Holding to settle the consideration of MOP32,393,744 for the acquisition of the entire share capital of SHY.

(c) On 23 January 2018, the Company increased its authorised share capital from HK$380,000 (MOP391,400) divided into 38,000,000 shares of HK$0.01 each to HK$50,000,000 (equivalent to MOP51,500,000) divided into 5,000,000,000 shares of HK$0.01 each.

On 13 February 2018, a total of 959,998,000 shares were allotted and issued, credited as fully paid at par, by the way of capitalisation of a sum of HK$9,599,980 (equivalent to MOP9,887,980) standing to the credit of the share premium account of the Company, and such shares to be allotted and issued to the persons whose names appear on the register of members of the Company (the "Capitalisation Issue").

(d) On 13 February 2018, 240,000,000 ordinary shares with a par value of HK$0.01 each of the Company were issued at a price of HK$1.25 (equivalent to MOP1.29) by way of public offering. On the same day, the Company's shares were listed on the Stock Exchange.

23. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a share option scheme on 23 January 2018 ("Share Option Scheme"). The purpose of the Share Option Scheme is to provide employees, directors, advisers, consultants, suppliers, customers and distributors of the Group ("Participants") with the opportunity to acquire proprietary interests in the Company and to encourage Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants. The Share Option Scheme became effective on 13 February 2018 and, unless otherwise cancelled or amended, remain in force for 10 years from that date.

Pursuant to the Share Option Scheme, the directors of the Company may invite Participants to take up options at a price determined by the board of directors provided that it shall be at least the highest of (a) the official closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (b) the average of the official closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a Company's share.

The aggregate number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, and other schemes offered by the Company, as from the date of adoption of the Share Option Scheme, shall not exceed 10% of the shares in issue (i.e. 120,000,000 shares) on the listing date. The overall limit on the number of shares which shall be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme, and other schemes offered by the Company, shall not exceed 30% of the issued share capital of the Company from time to time. The total number of shares issued, and to be issued, upon exercise of options granted in accordance with the Share Option Scheme to each Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

On 3 April 2018, the Company offered to grant an aggregate of 1,900,000 share options to certain directors of the Company and eligible persons. Fair value of these share options was calculated using the binomial model. The inputs into the model were as follows:

Grant date share price	HK$1.8
Exercise price	HK$1.8
Exercisable period	25%: 3 April 2018 to 2 April 2028
	25%: 3 April 2019 to 2 April 2028
	25%: 3 April 2020 to 2 April 2028
	25%: 3 April 2021 to 2 April 2028
Expected life	7–10 years
Expected volatility	37%
Dividend yield	1.0%
Risk-free interest rate	1.894%

Expected volatility was determined by using the historical volatility of comparable companies within the industry listed in Hong Kong.

Dividend yield was assumed at 1.0% during the option life based on management's best estimate. The risk free rate was reference to the yield of Hong Kong Exchange Fund Notes as at the valuation date. The year of maturity of the government bond yields being referred is determined in accordance with the life of options.

23. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Details of movements in the share options under the Share Option Scheme during the year and options outstanding as at the end of the year are as follows:

Name of grantees	Date of grant	Changes during the year				Number of share options held as at 31 December 2018	Exercise price per share	Exercisable period (Note)
		Granted	Exercised	Lapsed	Cancelled		HK$	
Directors								
Ms Chan Po Yi, Patsy	3 April 2018	200,000	–	–	–	200,000	1.8	3 April 2018 to 2 April 2028
Mr. Cheung Kiu Cho, Vincent	3 April 2018	200,000	–	–	–	200,000	1.8	3 April 2018 to 2 April 2028
Dr. Ngan Matthew Man Wong	3 April 2018	200,000	–	–	–	200,000	1.8	3 April 2018 to 2 April 2028
Employees	3 April 2018	250,000	–	–	–	250,000	1.8	3 April 2018 to 2 April 2028
Consultants	3 April 2018	1,050,000	–	–	–	1,050,000	1.8	3 April 2018 to 2 April 2028
		1,900,000	–	–	–	1,900,000		

Note: These share options are exercisable in four tranches, namely: (a) 25% shall be exercisable at any time during the period commencing from 3 April 2018 and ending on 2 April 2028; (b) 25% shall be exercisable at any time during the period commencing from 3 April 2019 and ending on 2 April 2028; (c) 25% shall be exercisable at any time during the period commencing from 3 April 2020 and ending on 2 April 2028; and (d) 25% shall be exercisable at any time during the period commencing from 3 April 2021 and ending on 2 April 2028.

The estimated fair values of the options granted on 3 April 2018 was MOP1,457,000. The share-based compensation expenses recognised during the year ended 31 December 2018 was approximately MOP1,457,000 (2017: nil).

24. OPERATING LEASES COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2018 **MOP'000**	2017 MOP'000
Within one year	**215**	328

Including in the operating leases commitments, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases with Mr. Kuok and Ms. Wong Fong Peng (the spouse of Mr. Kuok) in respect of rented premises which fall due as follows:

	2018 **MOP'000**	2017 MOP'000
Within one year	**214**	214

The leases are generally negotiated for a lease term of one to three years at fixed rentals.

25. CAPITAL COMMITMENT

At the end of the reporting period, the Group had the following capital commitments in respect of the acquisition of property, plant and equipment.

	2018 **MOP'000**	2017 MOP'000
Contracted but not provided for	**34,835**	—

26. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related parties disclosed in the consolidated statement of financial position and other details disclosed elsewhere in the consolidated financial statements, the Group also entered into the following transactions with related parties during the year.

Name of related parties	Nature of transaction	2018 MOP'000	2017 MOP'000
Mr. Kuok and Ms. Wong Fong Peng (the spouse of Mr. Kuok)	Office rental expenses	**660**	610
	Premise rental expenses	**198**	198
ACEL Engineering Company Limited	Construction works expenses	**—**	206
	Service fee expenses	**—**	3,400
Hytech Engineering & Material Co., Ltd (note b)	Construction works expenses	**—**	1,179
Sieger Facilities Management Limited (note b)	Facilities management expenses	**—**	14,360
Lei Mang Engineering Co., Ltd (note b)	Consultancy service expenses	**—**	1,859
	Construction contract income	**—**	502
Autoduct (Macao) E & M Engineering Co., Ltd.	Construction works expenses	**497**	261
Kappa Electrical & Mechanical Engineering Co., Ltd (note b)	Construction works expenses	**—**	4,620
	Construction contract income	**—**	264
Melco Resorts & Entertainment Limited and its subsidiaries	Construction contract income	**133,838**	266,094
	Service income	**76,147**	21,042
Macao Modern Environmental Protection Technology Company Limited (note a)	Purchase of raw materials	**2,161**	148
CCM — EHY JV	Construction contract income	**17,349**	—
Black Spade Capital Limited	Consultancy fee expenses	**989**	—

Notes:

(a) The Controlling Shareholders have beneficial interests over the related companies.

(b) These companies were related companies in which Controlling Shareholders have beneficial interests. In July 2017, the equity interest of the Controlling Shareholders were transferred to third parties, therefore these companies were not related companies of the Group since July 2017.

Compensation of key management personnel

The directors of the Company and senior management of the Group are identified as key management members of the Group. Their short-term benefits, post-employment benefits and share-based compensation expenses for the year ended 31 December 2018 are MOP14,000,000 (2017: MOP6,872,000) and MOP21,000 (2017: MOP11,000) and MOP197,000 (2017: nil), respectively.

27. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to its stakeholders and maintaining an adequate capital structure. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of debts, which includes amounts due to shareholders and related companies, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends and new shares issues as well as the issue of new debts.

28. FINANCIAL INSTRUMENTS

28a. Categories of financial instruments

	2018 **MOP'000**	2017 MOP'000
Financial assets		
Amortised cost	**547,797**	—
Loans and receivables (including bank balances and cash)	**—**	406,445
Financial liabilities		
Amortised cost	**126,604**	185,857

28b. Financial risk management objectives and policies

The Group's major financial instruments include debtors and deposits, amounts due from shareholders and related companies, fixed bank deposits, pledged bank deposits, bank balances and cash, creditors and accrued charges and amounts due to shareholders and related companies. Details of these financial instruments are disclosed in the respective notes.

The risks associated with the Group's financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Market risk

Currency risk

The Group entities collect most of the revenue and incur most of the expenditures in their respective functional currency. The Group is exposed to currency risk primarily through purchase of raw materials and services and sales proceeds received from customers that are denominated in currencies other than the group entities' functional currency. The currency giving rise to this risk is primarily HK$. The management of the Group considers that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in HK$, and HK$ is pegged with MOP.

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.

The carrying amounts of significant foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2018	2017	**2018**	2017
	MOP'000	MOP'000	**MOP'000**	MOP'000
HK$	**345,400**	312,109	**12,504**	50,649

Sensitivity analysis

For the exposure to the fluctuation in HK$ against MOP, the directors of the Company are of opinion that such exposure is insignificant and no sensitivity analysis is presented.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits and bank balances. The Group is also exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits and fixed bank deposits. The Group currently does not enter into any hedging instrument for cash flow interest rate risk.

The directors of the Company consider that the overall interest rate risk is not significant and no sensitivity analysis is presented.

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

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 an obligation by the counterparties is arising from the carrying amount of respective financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables, trade-nature amounts due from related companies and contract assets arising from contracts with customers

As at 31 December 2018, the Group has concentration risk on trade receivables, trade-nature amounts due from related companies and contract assets (2017: trade and retention receivables, and trade-nature amounts due from related companies) from the Group's top five customers of 86% (2017: 82%). The major customers of the Group are certain reputable organisations and the management of the Group considered that the credit risk is insignificant after considering their historical settlement and credit quality.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivables, non-trade nature amounts due from related companies, fixed bank deposits, pledged bank deposits and bank balances

The Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on other receivables, non-trade nature amounts due from related companies, fixed bank deposits, pledged bank deposits and bank balances based on 12m ECL.

The credit risk on other receivables and non-trade nature amounts due from related companies is limited because the counterparties have no historical default record and the directors expect that the general economic conditions will not significantly change from the 12 months after the reporting date.

The credit risk on fixed bank deposits, pledged bank deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Based on the Group's internal credit rating, no material impairment loss allowance is recognised for other receivables, non-trade nature amounts due from related companies, fixed bank deposits, pledged bank deposits and bank balances.

The Group is exposed to concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings.

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount MOP'000
Contract assets	15	N/A	Note	Lifetime ECL (not credit-impaired)	30,212
Trade receivables	17	N/A	Note	Lifetime ECL (not credit-impaired)	150,443
Amounts due from related companies (trade-nature)	18	N/A	Note	Lifetime ECL (not credit-impaired)	57,605
Other receivables	17	N/A	Low risk	12m ECL	2,025
Amounts due from related companies (non-trade nature)	18	N/A	Low risk	12m ECL	2,840
Bank balances, fixed deposits and pledged deposits	20	Baa3 to Aaa	N/A	12m ECL	337,821

Note: For trade receivables, trade-nature amounts due from related companies and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected loss individually for debtors with significant balances.

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk and ECL for trade receivables, trade-nature amounts due from related companies, and contract assets which are assessed individually as at 31 December 2018.

Internal credit rating	Average loss rate	Trade receivables	Trade-nature amounts due from related companies	Contract assets
		MOP'000	MOP'000	MOP'000
Low risk	1.30%	89,015	35,370	26,365
Watch list	1.36%	30,450	10,593	3,847
Doubtful	1.66%	30,978	11,642	—
		150,443	57,605	30,212

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided MOP345,000 for impairment allowances for trade receivables, trade-nature amounts due from related companies and contract assets.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables, trade-nature amounts due from related companies and contract assets under the simplified approach.

	Trade receivables	Trade-nature amount due from related companies	Contract assets	Lifetime ECL (not credit-impaired)
	MOP'000	MOP'000	MOP'000	MOP'000
At 31 December 2017 under IAS 39	—	—	—	—
Adjustment upon application of IFRS 9	1,236	1,187	518	2,941
At 1 January 2018— As restated	1,236	1,187	518	2,941
Impairment losses, net of reversal	1,058	(544)	(169)	345
At 31 December 2018	2,294	643	349	3,286

28. FINANCIAL INSTRUMENTS (Continued)

28b. Financial risk management objectives and policies (Continued)

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its financial liabilities which has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Repayable on demand or less than 3 months MOP'000	3 months to 1 year MOP'000	Total undiscounted cash flows MOP'000	Total carrying amount MOP'000
At 31 December 2018					
Non-derivative financial liabilities					
Creditors and accrued charges	—	124,929	1,546	126,475	126,475
Amounts due to related companies	—	129	—	129	129
		125,058	1,546	126,604	126,604

	Weighted average effective interest rate %	Repayable on demand or less than 3 months MOP'000	Total undiscounted cash flows MOP'000	Total carrying amount MOP'000
At 31 December 2017				
Non-derivative financial liabilities				
Creditors and accrued charges	—	178,097	178,097	178,097
Amounts due to related companies	—	2,739	2,739	2,739
Amounts due to shareholders	—	5,021	5,021	5,021
		185,857	185,857	185,857

28. FINANCIAL INSTRUMENTS (Continued)

28c. Fair value measurements of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of financial assets and financial liabilities carried at amortised cost approximate their carrying amounts.

29. PERFORMANCE BONDS AND CONTINGENT LIABILITY

Certain customers of construction contracts undertaken by the Group require the group entities to issue guarantees for the performance of contract works in the form of performance bonds and secured by pledged bank deposits (note 20), promissory notes and corporate guarantee. The performance bonds are released when the construction contracts are completed or substantially completed.

At the end of the reporting period, the Group had outstanding performance bonds as follows:

	2018 **MOP'000**	2017 MOP'000
Issued to the Group by banks	**75,019**	179,327

As at 31 December 2018, the Group has obtained total credit facilities of MOP309,000,000 for the issuance of performance bonds and these credit facilities were secured by (i) the pledged bank deposits of approximately MOP22.6 million; (ii) the promissory notes of approximately MOP370,800,000; and (iii) corporate guarantee provided by the Company.

As at 31 December 2017, the Group has obtained total credit facilities of MOP489,000,000 for the issuance of performance bonds and these credit facilities were secured by (i) the pledged bank deposits of approximately MOP41.1 million; (ii) the promissory notes of approximately MOP744,800,000; and (iii) the personal guarantees of Mr. Kuok and Mr. Sou. During the year ended 31 December 2018, the personal guarantees of Mr. Kuok and Mr. Sou have been released and are replaced by (iv) corporate guarantee provided by the Company.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to related companies MOP'000	**Amounts due to shareholders MOP'000**	**Accrued share issue costs MOP'000**	**Dividend payable MOP'000**	**Total MOP'000**
At 1 January 2018	**2,739**	**5,021**	**308**	**—**	**8,068**
Financing cash flows (note)	**(2,615)**	**(5,021)**	**(12,806)**	**(95,172)**	**(115,614)**
Share issue costs accrued	**—**	**—**	**12,498**	**—**	**12,498**
Dividend declared	**—**	**—**	**—**	**95,172**	**95,172**
At 31 December 2018	**124**	**—**	**—**	**—**	**124**

	Amounts due to related companies MOP'000	Amounts due to shareholders MOP'000	Accrued share issue costs MOP'000	Dividend payable MOP'000	Total MOP'000
At 1 January 2017	—	—	—	—	—
Financing cash flows (note)	2,739	5,021	(2,384)	(41,200)	(35,824)
Share issue costs accrued	—	—	2,692	—	2,692
Dividend declared	—	—	—	41,200	41,200
At 31 December 2017	2,739	5,021	308	—	8,068

Note: The cash flows make up the net amount of advances from and repayment to shareholders/related companies, dividend paid, or share issue costs paid in the consolidated statement of cash flows.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 MOP'000	2017 MOP'000
Non-current asset		
Investments in subsidiaries	**147,204**	147,204
Current assets		
Deferred share issued costs	**—**	2,692
Other receivables (note 2)	**243**	—
Amounts due from subsidiaries (notes 1 and 2)	**295,664**	—
Bank balances and cash (note 2)	**3,087**	4
	298,994	2,696
Current liabilities		
Accrued charges	**2,764**	3,647
Amount due to a subsidiary	**—**	15,008
	2,764	18,655
Net current assets (liabilities)	**296,230**	(15,959)
Net assets	**443,434**	131,245
Capital and reserves		
Share capital	**12,360**	—*
Reserves	**431,074**	131,245
Total equity	**443,434**	131,245

* Less than MOP1,000

Notes:

(1) The amounts due from subsidiaries classified under current assets are unsecured, interest-free and repayable on demand. The directors expect these amounts will be repaid within twelve months from the end of the reporting period, accordingly, these amounts are classified as current assets.

(2) ECL for amounts due from subsidiaries, other receivables and bank balances are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition. No material impairment allowance is made based on the Company's internal and/or external credit rating.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Movement on the Company's reserves

	Share premium MOP'000	Share options reserve MOP'000	(Accumulated loss)/retained earnings MOP'000	Total MOP'000
At 8 May 2017 (date of incorporation)	—	—	—	—
Loss and total comprehensive expense for the period	—	—	(15,959)	(15,959)
Effect at Reorganisation	147,204	—	—	147,204
At 31 December 2017	147,204	—	(15,959)	131,245
Profit and total comprehensive expense for the year	—	—	112,094	112,094
Issue of shares pursuant to Capitalisation Issue	(9,888)	—	—	(9,888)
Issue of shares pursuant to public offering	306,528	—	—	306,528
Share issue costs	(15,190)	—	—	(15,190)
Share-based compensation expenses	—	1,457	—	1,457
Dividend paid	—	—	(95,172)	(95,172)
At 31 December 2018	428,654	1,457	963	431,074

32. INVESTMENTS IN AND PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiary	Place and the date of incorporation/ establishment	Issued and fully paid	Equity interest attributable to the Company as at		Principal activities
			31 December 2018	31 December 2017	
Directly held:					
MECOM EHY	British Virgin Islands 10 May 2017	HK$1	**100%**	100%	Investment holding
MECOM Hung Yip	British Virgin Islands 10 May 2017	HK$1	**100%**	100%	Investment holding
MECOM Sun Hung Yip	British Virgin Islands 10 May 2017	HK$1	**100%**	100%	Investment holding
Indirectly held:					
EHY	Macau 7 September 2010	MOP40,000	**100%**	100%	Provision of construction services and facilities management services
SHY	Macau 12 March 2008	MOP50,000	**100%**	100%	Provision of construction services

None of the subsidiaries had issued any debt securities at the end of the year.

FINANCIAL SUMMARY

	Year ended 31 December				
	2018	2017	2016	2015	2014
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
RESULTS					
Revenue	**597,572**	658,746	464,882	543,424	446,244
Profit before tax	**64,345**	86,668	82,918	113,139	84,275
Income tax expense	**(9,331)**	(8,474)	(14,917)	(16,064)	(11,322)
Profit and total comprehensive income for the year	**55,014**	78,194	68,001	97,075	72,953
Basic and diluted earnings per share (MOP cents)	**4.70**	8.15	7.08	10.11	7.60

	At 31 December				
	2018	2017	2016	2015	2014
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
ASSETS AND LIABILITIES					
Total assets	**607,601**	433,025	307,197	342,339	296,468
Total liabilities	**(156,452)**	(231,093)	(142,259)	(183,602)	(203,906)
Net assets	**451,149**	201,932	164,938	158,737	92,562
Total equity	**451,149**	201,932	164,938	158,737	92,562

Note: The figures for the years ended 31 December 2014, 2015 and 2016 have been extracted from the Company's prospectus dated 1 February 2018.