恆宇集團

SPACE GROUP

Space Group Holdings Limited
恆宇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 2448

2018
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Che Chan U *(Chairman)*
Ms. Lei Soi Kun
Mr. Wan Yee Sang

Independent Non-executive Directors

Mr. Fan Chun Wah, Andrew
Mr. Eulógio dos Remédios, José António
Ms. Leong Iat Lun

AUDIT COMMITTEE

Mr. Fan Chun Wah, Andrew *(Chairman)*
Mr. Eulógio dos Remédios, José António
Ms. Leong Iat Lun

REMUNERATION COMMITTEE

Mr. Eulógio dos Remédios, José António *(Chairman)*
Ms. Leong Iat Lun
Mr. Wan Yee Sang

NOMINATION COMMITTEE

Mr. Che Chan U *(Chairman)*
Ms. Lei Soi Kun
Mr. Eulógio dos Remédios, José António
Ms. Leong Iat Lun
Mr. Fan Chun Wah, Andrew

AUTHORIZED REPRESENTATIVES

Mr. Che Chan U
Mr. Ho Kwong Yu

COMPANY SECRETARY

Mr. Ho Kwong Yu *(CPA)*

AUDITOR

KPMG

COMPLIANCE ADVISER

CLC International Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MACAU

Edificio Centro Comercial Chong Fok
8C, Avenida de Marciano Baptista 18
Macau

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2612-13, One Midtown
11 Hoi Shing Road
Tsuen Wan
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Banco Nacional Ultramarino, S.A.
The Hongkong and Shanghai Banking Corporation Limited
Bank of China Macau Branch

LEGAL ADVISER

As to Hong Kong laws
Chungs Lawyers

STOCK CODE

2448 (listed on the Main Board of The Stock Exchange of Hong Kong Limited)

WEBSITE

spacegroup.com.mo

For and on behalf of the board of directors (the "Board"), I would like to present the annual report of Space Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

RESULT ANALYSIS AND BUSINESS REVIEW

On top of the successful listing (the "Listing") on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 January 2018, benefited from the strong Company's image and improved financial flexibility, the Group continued to develop its business not limited in Macau, but also in Hong Kong and Zhuhai during the financial year 2018. With the completion of the Hong Kong-Zhuhai-Macau Bridge, which will have positive impact on economics activities in these areas, the management is optimistic about the growth prospects of the fitting-out works and building construction works in these areas in the coming years.

The Group recorded a revenue of approximately MOP405.7 million for the year ended 31 December 2018, representing a decrease of approximately 15.9% as compared to last year (2017: MOP482.4 million); completing the total contracted value of not less than MOP129.2 million in the reporting year for 14 fitting-out works. The profit for the year was approximately MOP61.6 million, representing a year-on-year decrease of MOP27.8 million or 31.1% (2017: MOP89.4 million), the decrease was mainly due to there being no gain on disposal of investment property during the year as compared with the corresponding period in 2017 (2017: MOP41.2 million); while the Group's basic earnings per share were MOP8 cents, representing a decrease of approximately MOP7 cents compared with the same period of last year (2017: MOP15 cents).

In 2019, the Group continued to provide fitting-out works to hotel and casino resorts, households' customers and other property owners in Macau. Moreover, the Group started to develop for both the fitting-outs works and building constructions works to households' customers and other property owner in Hong Kong. Together with the provision of fitting-out works of commercial building in Zhuhai, it marked another important milestone of the Group for the diversified of the business by different areas.

During the year 2018, there were new brands of hotels which commenced to provide service in Macau. Together with the starting of refurbishments or further development projects undergoing from large hotels, casino and resorts, the Group is confident that there will be plenty of business opportunities for the market in Macau. Meanwhile, the Group continued to take the opportunities in other geographical areas such as Hong Kong and Zhuhai. Given the start these new projects and undergoing projects, there will be plenty of sources of revenue. We believe there will be huge advantage the growth of the Group's business.

APPRECIATION

I take this opportunity to represent the board of directors and express our gratitude to the management and all staff of the Group for their dedication and valuable contribution over the past year. Thank you for your contribution and for your growth with the Group.

At the same time, we are deeply grateful to our customers, suppliers, business partners and shareholders for their continued support and trust. The Group will continue to focus on the development of quality and efficiency so as to achieve satisfactory results and thereby bring sustainable returns to our shareholders.

Space Group Holdings Limited
Chairman
Che Chan U

Hong Kong, 31 March 2019

BUSINESS REVIEW

The Macau government has launched various promotional campaigns and related policies to support tourism. Meanwhile, the completion of the Hong Kong-Zhuhai-Macau Bridge is expected to further promote the economic development in Macau, Hong Kong and Zhuhai areas.

With the enhanced corporate profile, market reputation and brand awareness of the Group after the Listing, the Group came across with business opportunities for projects which consist of building construction works and/or fitting-out works in Hong Kong and Zhuhai with the total contracts amount of approximately MOP574.4 million. The geographical expansion of the Group's business to Hong Kong and Mainland China will ensure a healthy revenue stream to the Group.

With the completion of the Hong Kong-Zhuhai-Macau Bridge, which will have positive impact on tourism industry due to the high demand of hospitalities services in these areas, the management is optimistic about the growth prospects of the fitting-out works and building construction works in these areas in the coming years.

The Group's revenue came from (i) fitting-out works; and (ii) building construction works. For the year ended 31 December 2018, the Group's total new awarded fitting-out projects and building construction projects received a total contract amount of approximately MOP634.1 million compared with approximately MOP314.0 million for the year ended 31 December 2017.

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group's revenue of approximately MOP405.7 million (2017: approximately MOP482.4 million). For the year ended 31 December 2018, the Group recorded profit for the year of approximately MOP61.6 million (2017: approximately MOP89.4 million). Excluding the one-off listing expenses recognised, for the year ended 31 December 2018, the Group recorded profit for the year of approximately MOP69.8 million (2017: MOP100.2 million). During the year ended 31 December 2018, the Group completed 14 projects (All were fitting-out projects), and was awarded 16 fitting-out projects and 1 building construction project.

Revenue

For the year ended 31 December 2018, revenue of the Group amounted to approximately MOP405.7 million, representing a decrease of approximately 15.9% from approximately MOP482.4 million in 2017.

The decrease of the Group's revenue was mainly attributable to the decrease in the revenue derived from fitting-out projects building construction projects.

The revenue from fitting-out works decreased from approximately MOP332.9 million for the year ended 31 December 2017 to approximately MOP288.9 million for the year ended 31 December 2018. Such decrease was mainly attributable to several projects completed during 2018 and that the substantial amount of the revenue for these projects was recorded in the year ended 31 December 2017 and new project which have been awarded but will be commenced in 2019.

The decrease in revenue from building construction works was mainly attributable to a sizable project which was completed in 2018 and that substantial amount of the revenue for that project was recorded in the year ended 31 December 2017.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately 6.6% to approximately MOP106.6 million in 2018 from approximately MOP99.9 million in 2017, while the Group's gross profit margin was 26.3% in 2018 as compared to a gross profit margin of 20.7% in 2017. The increase in gross profit was mainly attributable to the increase in gross profit from the building construction projects resulting from a sizeable project which was launched in 2019.

Other Income

We had other income of approximately MOP4.9 million and MOP34.2 million in 2018 and 2017 respectively. Included in the other income for 2017 was mainly a gain on disposal of the investment property amounted to approximately MOP33.2 million, which was an one-off event in 2017 and did not occur again in 2018. Hence it resulted in the sharp decrease of other income in 2018.

General and Administrative Expenses

The Group's administrative expenses increased to approximately MOP32.4 million in 2018 from approximately MOP25.4 million in 2017. The increase by approximately 27.7% was mainly attributable to the increase in administrative staff cost of approximately MOP7.7 million.

Finance Costs

The Group's finance costs increased to approximately MOP6.1 million in 2018 from approximately MOP5.7 million in 2017. The increase of approximately 6.1% was mainly due to an increase in the prime rank in Macau.

Income Tax Expense

The Group's income tax expense decreased to approximately MOP11.4 million in 2018 from approximately MOP13.6 million in 2017. The decrease of approximately 16.3% was mainly due to the decrease in the profit before taxation.

Profit for the year

Profit for the year decreased by approximately 31.1% to approximately MOP61.6 million in 2018 from approximately MOP89.4 million in 2017, which was mainly attributable to the combined effect of the aforementioned items.

CORPORATE FINANCE AND RISK MANAGEMENT

Liquidity, Financial and Capital Resources

Cash Position

As at 31 December 2018, the Group had an aggregate of pledged deposits, bank deposits, and cash and cash equivalents of approximately MOP36.1 million (2017: approximately MOP43.9 million), representing a decrease of approximately 17.9% as compared to that as at 31 December 2017. As at 31 December 2018, bank deposits of MOP11.9 million (2017: MOP26.7million) are pledged to secure banking facilities (including bank loans and overdraft and issuance of performance bonds).

Borrowings and Charges on the Group's Assets

As at 31 December 2018, the Group had bank loans and overdraft and other borrowings of approximately MOP145.5 million (2017: approximately MOP191.5 million). Amongst the borrowings, approximately MOP145.5 million (2017: approximately MOP191.4 million) will be repayable within one year and approximately MOPNil million (2017: approximately MOP0.1 million) will be repayable after one year.

As at 31 December 2018, bank loans and overdraft and other borrowings of approximately MOP145.4 million (2017: approximately MOP191.3 million) were secured by land held by the Group, pledged deposits of the Group, corporate guarantees provided by the Company and certain subsidiaries of the Group, guarantees provided by the Industrial and Commercial Development Fund of the Macau Government and personal guarantees, properties and insurance proceeds over a close member of the family of a director.

As at 31 December 2018, the assets pledged to secure certain banking facilities granted to the Group amounted to MOP99.5 million (2017: approximately MOP114.3 million).

Gearing Ratio

As at 31 December 2018, the gearing ratio (calculated by total debts divided by total equity; total debts include bank loans and overdrafts and other borrowings) was 0.5 (2017: approximately 5.6).

The decrease was primarily attributable to the increase in equity of approximately MOP288.2 million for the year ended 31 December 2018.

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign Currency Risk

The Group has no significant exposure to foreign currency risk as substantially all of the Group's transactions are denominated in Macau Pataca and Hong Kong dollar, which is pegged to Macau Pataca.

Capital structure

The shares of the Company (the "**Shares**") were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of share after (the "**Share Offer**") on 16 January 2018 (the "**Listing Date**"). There has been no change in the capital structure of the Company since that date. The capital of the Company comprises ordinary shares and other reserves.

Capital commitments

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

Contingent Liabilities

As at 31 December 2018, the Group had contingent liabilities of MOP16.1 million (2017: approximately MOP25.7 million). The decrease was primarily due to the release of the performance bonds upon completion of the hotels and casinos fitting-out projects.

Material Acquisitions and Disposals

During the year ended 31 December 2018, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Significant investments held

As at 31 December 2018, the Group had no significant investments.

Future Plans for Material Investments

The Group did not have other plans for material investments and capital assets as at 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had approximately 86 employees (as at 31 December 2017: 384). Total staff costs (including Directors' emoluments) were approximately MOP31.5 million for the year ended 31 December 2018, as compared with approximately MOP29.6 million for the year ended 31 December 2017. The increase is mainly attributable to the increase of management personnel for certain projects rewarded in 2018 offseted by the decrease in workers as the Group increased the portion of subcontracting.

Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience. The remuneration package generally include basic salaries, bonuses and employee benefits such as housing allowances. We conduct annual review on employee salary and promotion based on their respective performances. The Group also operates the Share Option Scheme, pursuant to which options to subscribe for Shares may be granted to the Directors and employees of the Group. The Group provides orientation programmes for new employees to familiarise them with our general working environment and work culture. The Group will also arrange on-the-job trainings for our employees such as accounting trainings conducted by external parties, which aims at developing their skills so as to meet our strategic goals, customer requirements, regulatory requirements and contractual obligations. The Group has also provided specific site trainings to our site personnel in respect of management of quality, environmental protection, health and safety matters.

SHARE OPTION SCHEME

The principal terms of the Share Option Scheme were summarised in the paragraph headed Share Option Scheme in the Report of the Directors. The purpose of the Share Option Scheme is to provide the Company a flexible means of giving incentive to, rewarding, remunerating, compensating and providing benefits to eligible participants and for such other purposes as the Board approves from time to time. Since the adoption of the Share Option Scheme and up to the date of this annual report, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

USE OF PROCEEDS FROM SHARE OFFER

The Shares of the Company were listed on the Main Board of the Stock Exchange on 16 January 2018 with net proceeds received by the Company from the Share Offer in the estimated amount of HK$188.8 million after deducting underwriting commissions and all related expenses. The net proceeds received from the Share Offer are intended to be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

From the Listing Date to the date of this report, the net proceeds had been applied as follows:

Use of Net Proceeds from the Share Offer

	Net proceeds (HK$ million)		
	Available	**Utilised**	**Unutilised**
Finance fitting-out projects	46.1	46.1	–
Finance building construction projects	127.6	127.6	–
General working capital	15.1	15.1	–
Total	188.8	188.8	–

EVENTS AFTER THE REPORTING PERIOD

No significant event took place subsequent to 31 December 2018.

DIVIDEND AND DIVIDEND POLICY

The Board did not recommend the payment of a final dividend by the Company for the year ended 31 December 2018.

The Company has adopted a dividend policy (the "**Dividend Policy**"). In deciding whether to propose any dividend, the Board will consider, among others, the Group's actual and expected financial performance, retained earnings and distributable reserves of the Group and each of the members of the Group, the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants, the Group's capacity from current and future operation, future commitments at the time of preparing and making the distribution, any restrictions on payment of dividends that may be imposed by the Group's lenders, any restrictions under the laws of Hong Kong and Cayman Islands and the Company's Articles of Association, and any other factors that the Board deems appropriate.

The declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Company's Articles of Association and any other applicable laws and regulations. The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Group in respect of its future dividend and/or in no way obligate the Group to declare a dividend at any time or from time to time.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintain high standards of corporate governance to protect the interests of its Shareholders and to enhance corporate value and accountability. The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code ("CG Code") set out in Appendix 14 of the Listing Rules since 1 January 2018 and up to 31 December 2018 (the "Relevant Period").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the Relevant Period.

BOARD OF DIRECTORS

Composition

The Board comprises six Directors and their respective role are as follows:–

Executive Directors

Mr. Che Chan U *(Chairman)*
Ms. Lei Soi Kun
Mr. Wan Yee Sang

Independent Non-executive Directors

Mr. Fan Chun Wah, Andrew
Mr. Eulógio dos Remédios, José António
Ms. Leong Iat Lun

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Save as disclosed therein, there is no relationship (whether financial, business, family or other material or relevant relationships) amongst members of the Board, senior management or substantial shareholder or controlling shareholder of the Company.

The composition of the Board is well balanced with each Director having extensive corporate and strategic planning experience, sound industry knowledge and/or professional expertise. All independent non-executive Directors have offered sufficient time and efforts to serve the business affairs of the Company. They also possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinion. The Board believes that the ratio among executive Directors and independent non-executive Directors is reasonable and appropriate. The Board also believes that the participation of independent non-executive Directors shall offer their independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all Shareholders and the Group are considered and safeguarded.

Role and Function

The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group and to ensure the availability of resources as well as the effectiveness of its system of internal control.

Implementation and execution of the policies and strategies formulated by the Board and the daily operations are delegated from the Board to the management of the Company. In addition, an audit committee (the "Audit Committee"), a remuneration committee (the "Remuneration Committee") and a nomination committee (the "Nomination Committee") were set up to assist the Board in fulfilling certain responsibilities. Further details of these committees are set out in the paragraph headed "Board Committees" of this annual report.

Independence of Independent Non-Executive Directors

Pursuant to the requirement of Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, one of whom has appropriate professional qualification in accounting and financial management expertise. All independent non-executive Directors have confirmed their independence, as set out in Rule 3.13 of the Listing Rules, to the Company and the Board considers that all independent non-executive Directors have satisfied their independence of the Group.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors, officers and senior management of the Company arising out of corporate activities.

Board Meeting

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results. The Directors had participated in the Board meetings as indicated below. For those Directors who could not attend these meetings in person, they participated through electronic media.

The company secretary of the Company (the "Company Secretary") assists the Chairman to prepare the agenda of the meetings and each Director may request to include any relevant matters on the agenda. Generally, at least 14 days' notice is given for the regular meetings by the Company. All substantive agenda items have comprehensive briefing papers, which are, in general, circulated three days before convening each Board meeting.

All Directors are able to seek advice and services from the Company Secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. Draft minutes of Board meetings and meetings of the Board committees are circulated to all Directors for comment and approval as soon as practicable after the meetings. Minutes of Board meetings and meetings of Board committee are kept by the Company Secretary and all Board members are given a copy of the minutes for their record. Should a matter being considered involve a potential conflict of interest of a Director, the Director involved in the transaction would be requested to leave the boardroom and abstain from voting. The matter would be discussed and resolved by other Directors. Policy is in place that Directors, upon reasonable request, may seek independent professional advice on issues related to the Group's business at the Company's expenses. The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

During the period from 1 January 2018 to 31 December 2018, the attendance of the individual Directors at the meetings is set out below:

	Number of meetings attended/eligible to attend from 1 January 2018 to 31 December 2018			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Che Chan U	4/4	–/–	–/–	1/1
Ms. Lei Soi Kun	4/4	–/–	–/–	1/1
Mr. Wan Yee Sang	4/4	–/–	1/1	–/–
Independent Non-Executive Directors				
Mr. Fan Chun Wah, Andrew	4/4	4/4	–/–	1/1
Mr. Eulógio dos Remédios, José António	4/4	4/4	1/1	1/1
Ms. Leong Iat Lun	4/4	4/4	1/1	1/1

The independent non-executive Directors were appointed on 20 December 2017 and are subject to retirement by rotation in accordance with the articles of association of the Company.

DIRECTORS' TERMS OF APPOINTMENT

All Directors are appointed for a term of three years and are subject to the requirement of retirement by rotation and re-election at the annual general meeting at least once every three years in accordance with the articles of association of the Company (the "Articles of Association").

DIRECTORS' TRAINING

Revised Code Provision A.6.5 of the CG Code provides that Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remain informed and relevant.

All Directors are encouraged to participate in continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities. A summary of professional training received by Directors for the year ended 31 December 2018 according to the records provided by the Directors is as follows:

	Attending seminar(s)/ programme(s)/conference(s) and/or reading materials relevant to the business or directors' duties
Mr. Che Chan U	✓
Ms. Lei Soi Kun	✓
Mr. Wan Yee Sang	✓
Mr. Fan Chun Wah, Andrew	✓
Mr. Eulógio dos Remédios, José António	✓
Ms. Leong Iat Lun	✓

BOARD DIVERSITY POLICY

During the year ended 31 December 2018, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

BOARD NOMINATION POLICY

The Nomination Committee shall consider a number of factors as a reference in assessing the suitability of a proposed candidate, including reputation for integrity, accomplishment and experience in the industry, relevant skills and experience to contribute to the Board, commitment in respect of available time and relevant interest, diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee with specific terms of reference.

Audit Committee

Audit Committee was established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control system and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

Members of the Audit Committee are Mr. Fan Chun Wah, Andrew, Mr. Eulógio Dos Remédios, José António and Ms. Leong Iat Lun (all are independent non-executive Directors). Mr. Fan Chun Wah, Andrew currently serves as the chairman of the Audit Committee. Pursuant to the meeting of the Audit Committee, the Audit Committee reviewed, among other things, the audited financial statements for the year ended 31 December 2018 with recommendations to the Board for approval and discussed with the management and the external auditor the accounting policies and practices which may affect the Group, the report prepared by the external auditor covering major findings in the course of the audit and the accounting and financial reporting matters.

During the year ended 31 December 2018, the Audit Committee held 4 meetings.

The annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee before submission to the Board for approval.

Remuneration Committee

The Remuneration Committee was established with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations on the remuneration packages of individual Directors and senior management and on other employee benefit arrangements.

The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Eulógio Dos Remédios, José António and Ms. Leong Iat Lun, and one executive Director, namely Mr. Wan Yee Sang. Mr. Eulógio Dos Remédios, José António currently serves as the chairman of the Remuneration Committee. Pursuant to the first meeting of the Remuneration Committee on 29 March 2018, the Remuneration Committee has assessed the performance of the Directors and senior management of the Company, and reviewed and recommended to the Board the remuneration policy and structure relating to the Directors and senior management of the Company.

During the year ended 31 December 2018, the Remuneration Committee held 1 meeting. The remuneration for the Directors and senior management comprises basic salary, retirement benefits and discretionary bonus. Details of the amount of emoluments of Directors paid for the year ended 31 December 2018 are set out in note 8 to the consolidated financial statements.

The remuneration of members of the senior management (excluding Directors) by band for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of person(s)
HK$100,001 to HK$500,000	3
HK$500,001 to HK$1,000,000	3
HK$1,000,001 to HK$1,500,000	1

Nomination Committee

The Nomination Committee was established with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on appointments of our Directors, to assess the independence of the independent non-executive Directors, to take up references and to consider related matters.

The Nomination Committee consists of three independent non-executive Directors, namely Mr. Fan Chun Wah, Andrew, Mr. Eulógio Dos Remédios, José António and Ms. Leong Iat Lun, and two executive Directors, namely Mr. Che Chan U and Ms. Lei Soi Kun. Mr. Che Chan U currently serves as the chairman of the Nomination Committee.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the balance of expertise, skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the requirements of the business of the Group and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary. Further, pursuant to the terms of reference of the Nomination Committee, the Nomination Committee, when reviewing the composition of the Board, will have regard to the diversity of the Board, which includes gender, age, cultural and educational background, length of service, skills, knowledge and professional experience of the Board. The Company recognises and embraces the benefits of diversity of Board members.

During the year ended 31 December 2018, the Nomination Committee held 1 meeting.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code, namely: (i) to develop and review the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and (v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report in the Company's annual report.

The Board held 4 meetings during the Relevant Period, at which the Board reviewed the Company's policies and practices on corporate governance and legal and regulatory compliance, training and continuous professional development participations of the Directors, as well as the Company's compliance with the CG Code.

The Board acknowledges its responsibility in maintaining a sound and effective internal control and risk management systems for the Group to safeguard Shareholders' investments and assets of the Company at all times.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Che Chan U is the chairman of the Board. The Company has not appointed any chief executive officer since its inception. Given the current size and structure of the Company, the Board considers that such appointment is not required as the existing structure has a well-balanced of authorities, responsibilities and accountability among the members of the Board (which comprises experienced and high caliber individuals who meet regularly to discuss issues and affairs affecting the operations of the Company) and the senior management of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company conducts an annual review on whether there is a need for an internal audit department. Given the Group's simple operating structure, as opposed to a separate internal audit department, the Board is directly responsible for the establishment, maintenance and review of the Group's system of internal controls and risk management throughout the year ended 31 December 2018 and their effectiveness. The Company has engaged an external independent professional advisory firm (the "Independent Advisor") to review the effectiveness and adequacy of risk management and internal control systems in 2018 so as to ensure the effectiveness and adequacy of risk management and internal controls system. The Independent Advisor had reviewed and analysed all material controls of the Group, including financial, operational and compliance controls and their associated risks. The relevant reports from the Independent Advisor were presented to and reviewed by the Audit Committee and the Board.

The Board considered the risk management and internal control systems of the Group to be adequate and effective for the year ended 31 December 2018. The Board also conducted a review of the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget which are considered to be adequate for the year ended 31 December 2018.

The Board wishes to emphasise that risk management and internal control systems are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group strictly follows the requirements of the Securities and Futures Ordinance of Hong Kong (the "SFO") and the Listing Rules and ensures that inside information is disclosed to the public as soon as reasonably practicable unless the information falls within any of the safe harbours of the SFO. Before inside information is fully disclose to the public, such information is kept strictly confidential. In addition, the Group adopted the policy of disclosing relevant information only to appropriate staff within the Group.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2018 and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements.

The statement of the external auditor of the Company with regard to their reporting responsibilities on the Company's consolidated financial statements, is set out in the Independent Auditor's Report on pages 54 to 62 of this annual report.

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Company not to continue as a going concern. Therefore, the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, services provided to the Company by its external auditor, KPMG, and the respective fees paid were:

	2018 **MOP'000**
Audit services	**1,612**

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. Subject to provisions of the applicable laws in the Cayman Islands and Listing Rules, the Articles require that an annual general meeting ("AGM") of the Company to be held each year and at the venue as determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Pursuant to article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up share capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by depositing a written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists 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.

Shareholders may at any time put forward their enquiries (including the procedures for putting forward proposals at general meetings of the Company) to the Board in writing through the Company Secretary whose contact details are as follows:

Space Group Holdings Limited
2612-13, One Midtown,
11 Hoi Shing Road,
Tsuen Wan,
Hong Kong

Tel No.: (852) 2513 1192
Fax No.: (852) 2153 1013

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to article 85 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board established a Shareholders' communication policy to ensure that Shareholders and potential investors are provided with ready, equal and timely access to information of the Company.

The Company has maintained a corporate website at www.spacegroup.com.mo through which the Company's updated financial information, business development, announcements, circulars, notices of meetings, press releases and contact details can be accessed by the Shareholders and investors.

The AGM also provides an important opportunity for constructive communication between the Board and Shareholders. The Chairman and other members of the Board are present at the AGM to answer questions raised by the Shareholders. The annual report together with AGM circular is distributed to Shareholders at least 20 clear business days before the AGM.

CONSTITUTIONAL DOCUMENTS

The Company adopted an amended and restated memorandum of association on 20 December 2017 and amended and restated articles of association on 16 January 2018 which is the Listing Date.

APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE AND REPORTING

This Environmental, Social and Governance Report (the "ESG Report") summarizes the initiatives, programme and performance of the Group as well as demonstrates its commitment to sustainability.

The Group mainly undertakes fitting-out projects and building construction projects for private companies, including hotels and casinos, restaurants and retail shops, as well as other properties.

The Group believes that environmental protection, low carbon footprint, resource conservation and sustainable development are the key trends in our society. In order to follow the key trends and pursue a successful and sustainable business model, we stand firm to maintain environmental protection as our core value and reflect it in our business model, projects and products. The Group recognizes the importance of integrating ESG aspects into its risk management system and has taken corresponding measures in its daily operation and governance perspective.

REPORTING SCOPE

Unless otherwise stated, the content of this report covers the Group. The Group will continue to assess the major environmental, social and governance aspects of different businesses to determine whether it needs to be included in the environmental, social and governance reporting.

REPORTING FRAMEWORK

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "ESG Reporting Guide").

REPORTING PERIOD

The ESG Report specifics the environmental, social and governance activities, challenges and measures being taken during the year ended 31 December 2018.

STAKEHOLDER ENGAGEMENT

The Group values its stakeholders and their views relating to its businesses and environmental, social and governance issues. In order to understand and address stakeholders' concerns, the Group communicates with its key stakeholders, including but not limited to employees, investors, customers, suppliers through different channels such as conferences, electronic platforms and public events. In formulating operational strategies and environmental, social and governance measures, the Group takes into account the stakeholders' expectations and strives to improve its performance through mutual cooperation with the stakeholders, resulting in creating greater value for the community.

Materiality Assessment

The management and employees who are responsible for the key functions of the Group have participated in preparing this report, assisted the Group in reviewing its operation, identifying key environmental, social and governance issues and assessing the importance of these issues to our businesses and stakeholders. We compiled a questionnaire in reference to the identified material environmental, social and governance issues to collect the information from relevant departments and business units of the Group.

The following table summarises the Group's significant environmental, social and governance issues as set out in this report:

The ESG Reporting Guide	Material ESG aspects of the Group	Page
A. Environment		
A1. Emissions	Emissions, Wastewater and Waste Management	P23
	Greenhouse Gas Emission	P24
A2. Use of Resources	Energy Consumption	P25
	Water Consumption	P26
	Use of Packaging materials (Not applicable)	P26
A3. The Environment and Natural Resources	Environmental Impact Management	P27
B. Society		
B1. Employment	Employee Benefits and Equal Opportunities Policies	P28
B2. Health and Safety	Occupational Health and Safety	P29
B3. Development and Training	Staff Development and Training	P29
B4. Labor Standards	Prevention of Child Labor or Forced Labor	P30
B5. Supply Chain Management	Environmental and Social Risk Management of Supply Chain	P31
B6. Product Responsibility	Quality and Safety of Products and Services	P31
	Intellectual Property Management	P32
B7. Anti-Corruption	Prevention of Corruption and Fraud	P32
B8. Community Investment	Contributions to Society	P33

During the year ended 31 December 2018, the Group confirmed that appropriate and effective management policies and internal control systems for environmental, social and governance issues are in place and confirmed the information disclosed in the ESG Report meets the ESG Reporting Guide.

Contact us

Comments and suggestions are welcome from our stakeholders. You may provide comments on ESG report or towards our performance in respect of sustainable development. Relevant Suggestions can be sent to the E-mail address: space@spacegroup.asia.

A. ENVIRONMENT

A1. EMISSIONS

General Disclosure and Key Performance Indicators ("KPI")

Global warming and climate change have become major environmental issues to the world. The Group aims to minimize energy consumption and carbon emissions and has been exploring ways of adopting operational model which incurs less adverse impact on the environment. From the reporting perspective, we mainly focused on the environmental impact of the Group's offices and relevant measures to be taken during the daily operation and have formulated policies and procedures relating to the environmental management to govern the limited greenhouse gas emissions and non-hazardous waste generated from our operation. At the same time, the Group fully considers environmental elements in each of our business process, including design and planning, material procurement, and project execution. We cherish and make good use of the earth's resources to promote the harmony between human being and the nature environment.

General Disclosure and Key Performance Indicators ("KPI")

Waste management

The Group adheres to waste management principle and strives to properly manage and dispose wastes produced by our business activities. Our waste management practice has been complied with relevant laws and regulations relating to environmental protection. The non-hazardous wastes generated by the Group's operations mainly consist of paper and toner cartridges. During the year ended 31 December 2018, the consumption volume generated by the Group is shown as below:

Non-hazardous waste category	Quantity	Unit	Intensity – Unit per employee
Pape	13	Kilogram	0.1512
Toner cartridge	31	Pieces	0.56

We regularly monitor the consumption volume of paper, toner cartridges and ink cartridges and have implemented a number of reduction measures. The Group's office has also provided suitable facilities and encouraged our staff to sort and recycle the wastes to achieve the objectives in mitigating wastes, reusing and recycling in its operations. The Group maintains high standard in waste reduction, educates its employees the significance of sustainable development and provides relevant support in order to enhance their skills and knowledge in sustainable development.

Apart from recycling, the office has implemented various programs and activities to encourage employees to participate in waste reduction management, including:

- Promote green information and electronic communication, such as e-mail and electronic workflows, to implement "paperless system" concept;

- Place "Green Message" reminders on office equipment;

- Utilise used envelopes and double-side printing. Paper for single-side printing would be only adopted when handling official documents and confidential documents when necessary; and

- Recommend the use of recycled paper.

The Group does not produce any hazardous wastes in its business activities.

GHG emission

The consumption of electricity at the offices and petrol are the largest sources of greenhouse gas emissions of the Group. During the year ended 31 December 2018, the Group's total GHG emissions amounted to approximately 239.69 tonnes and the total GHG emission per employee was 2.79 tonnes/employee. The detailed summary of the GHG emission is shown as below:

GHG Performance Summary:

GHG Scope[1]	**Tonnes**	**Intensity – Tonnes per employee**
Direct GHG emission (Scope 1) – petrol consumption	54.54	0.63
Indirect GHG emission (Scope 2) – electricity consumption	184.84	2.15
Other indirect GHG emission(Scope 3) – paper and water consumption	0.31	0.00
Total GHG emission	239.69	2.79

Note:

1. GHG emissions data is presented in carbon dioxide equivalent and was in reference to, including but not limited to, the reporting requirements of the "GHG Protocol Corporate Accounting and Reporting Standard" issued by the World Resources Institute and the World Business Council for Sustainable Development.

The Group has implemented a number of measures to mitigate energy consumption such as turning off the air-conditioning system at night or when leaving office, keeping the office temperature at 25°C in summer and using LED lights or energy-saving light in the office; the Group issues environmental-related memorandum to its staff to raise their awareness of environmental preservation. Notices and posters relating to the environmental information have been placed in the offices to promote the best practice of the environmental management.

The green project is all about the program

At the project level, the Group considers the principle of environmental protection for each project. We comprehensively consider environmental elements during project design and planning, material procurement, project execution, etc.. For example, to plan and design according to local geographical features; to focus on the environmental quality of building materials; to assess whether the materials used by the suppliers in the activities are hazardous to the environment and whether our suppliers can effectively conserve energy and minimize carbon emissions. In the project execution process, we strictly implement the relevant energy saving regulations issued by the government.

The Group has complied with relevant environmental laws and regulations, including but not limited to Environmental Law of Macau, the Law of Prevention of Ambient Noise in Macau and a series of international conventions applicable to Macau. During the year ended 31 December 2017, the Group was not aware of any material non-compliance with laws and regulations relating to the air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that would have a significant impact on the Group.

On top of complying with the general disclosure requirement of Aspect A1, we have complied with the KPI requirement which is summarized below:

"Comply or explain" Provisions

KPI A1.1		
A1.1	The types of emissions and respective emissions data.	Disclosed
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Disclosed
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Not applicable
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Disclosed
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Disclosed
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Disclosed

A2. USE OF RESOURCES

General Disclosure and KPI

Energy Consumption

The Group understands that the building materials adopted by the Group will directly affect the quality of the building and its surrounding environment, so a number of environmental procurement measures have been taken.

The Group purchases and selects environmental friendly indoor and outdoor building materials, which can provide a comfortable environment and save natural resources at the same time. Also, the Group will select local material at a higher priority and consider recycling to reduce the carbon emission and construction waste generated from transportation.

The volume of energy consumption, electricity consumption and water consumption of the Group are considered as relatively low. As mentioned in the Aspect A1 section, the Group has formulated policies and procedures relating to the environmental management, including energy management. Electricity consumption and petrol consumption account for a substantial part of the carbon emission for the Group.

During the year ended 31 December 2018, the Group's consumption in petrol and electricity were:

Energy Type	Quantity	Unit	Intensity – Unit per employee
Petro	20,769	Litre	241.50
Electricity	266,104	kWh	3,094.23

On top of the measures of mitigating the energy consumption mentioned in previous section, the Group strives to utilize telephone or video conference to minimize face-to-face meeting in order to reduce petrol consumption in traveling and unnecessary business trips. The Group encourages resources saving in daily office operation and proactively fosters a low-carbon corporate culture, which further increases our employees' awareness in energy conservation.

Water consumption and use of packaging materials

During the year ended 31 December 2018, the Group consumed 1,034 tonnes of water and the water consumption per employee was 12.02 tonnes. As compared to the tiny amount of water consumption generated from office operations, the Group's mainly water consumption from construction sites include muddy water, wastewater from rinsing the cement system, cooling water of machineries and wastewater from rinsing of ground surface.

To reduce the use of water, the Group has implemented preventive measures and monitored the water consumption in construction sites by regular frequency.

In addition, due to the nature of business, the Group did not have physical products for sale and therefore did not involve any use of packaging materials. Therefore, this disclosure is not applicable to the Group.

On top of complying with the general disclosure requirement of Aspect A2, we have complied with the KPI requirement which is summarised below:

"Comply or explain" Provisions

KPI A2.1	Direct and/or indirect energy consumption by type and intensity	Disclosed
KPI A2.2	Water consumption in total and intensity	Disclosed
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Disclosed
KPI A2.4	Description on whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Issue in sourcing water – not applicable due to its business nature; Remaining – disclosed
KPI A2.5	Total packaging material used for finished products.	Not applicable

A3. ENVIRONMENT AND NATURAL RESOURCES

General Disclosure and KPI

Environmental impact management

The Group pursues the best practices in the environment protection and focuses on the impact of the Group's businesses to the environment and natural resources. In addition to complying with relevant environmental laws and regulations as well as properly preserve the natural environment, the Group has integrated the concept of environmental protection into its internal management and daily operations, with the aim of achieving environmental sustainability. The Group strives to promote environmental protection and make effective use of resources. It carries out continuous monitoring if the business operations incur any potential impact to the environment, and minimizes such impact to the environment through promoting green office and operating environment by adopting four basic principles which comprise of reduce, reuse, recycle and replacement. Where applicable, we adopt green purchasing strategies and the most practical technologies to protect our natural resources.

The Group understands that effective project management would ensure efficient use of resources. Therefore, many environmental-friendly construction measures have been taken. The Group strictly implements the building energy conservation regulations promulgated by the government, and continuously improves project management to minimize unnecessary power and water consumption in the project.

The Group supports waste management and waste reduction, and adopts a hierarchical system, namely, to avoid waste generation first, and to reuse resources and recycle the resources as much as possible before considering waste disposal. For construction waste, timely treatment is the basic requirement of clean and clean environment. The group has formulated the disposal plan of mud and waste residue, which requires the subcontractor to collect the construction waste in a centralized, simple classification and centralized external transportation, and promptly clean up the construction waste. The mud must be processed by the qualified transportation unit after drying in the field, so as to prevent the random dumping of construction waste in the environment.

The Group regularly reviews its environmental protection policies and has adopted the necessary precautionary measures and actions to reduce significant impact on the environment and natural resources, and ensure that the Group complies with relevant laws and regulations.

During the year ended 31 December 2018, the Group has not found any non-compliance with laws and regulations in respect of the environment and natural resources.

On top of complying with the general disclosure requirement of Aspect A3, we have complied with the KPI requirement which is summarized below:

"Comply or explain" Provisions

KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed

B. SOCIETY

B1. EMPLOYMENT

General disclosure

Employee Benefits and Equal Opportunities Policies

Employees are regarded as the Group's largest and most valuable assets and the core of competitive advantage. They provide the driving force for continuous innovation to the Group.

During the year ended 31 December 2018, the Group has fully complied with relevant rules and regulations in Macau, Hong Kong and PRC, including Law No.4/98/M (Framework Law on Employment Policy and Worker's Rights), Law No.7/2008 (Labor Relation Law), Decree Law No.58/93/M (approval of social security regime) and the other relevant rules.

The Group is committed to maintaining a diverse workforce that includes age, gender, family status, sexual orientation, disability, ethnicity, religion and equal opportunities.

The Group's staff handbook contains polices in regards to recruitment, promotion, discipline, working hours and leave. The human resources department has been responsible for ensuring all employees have fully understood the contents of the handbook.

The management regularly reviews the Group's remuneration and benefits policies in reference to the market standards and is committed to safeguarding the rights and interests of the staff. Remuneration and benefits have been adjusted on an annual basis in accordance with the employees' individual performance, contribution and market conditions.

During the year ended 31 December 2018, the Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B2. HEALTH AND SAFETY

General disclosure

Occupational Health and Safety

The Group has always placed emphasis on occupational safety and has set up an occupational health and safety management system to provide a safe working environment for office employees.

The Group strictly abide by the relevant laws and regulations of Macau, Hong Kong and PRC under certain health and safety regulations. We are committed to ensuring that our employees and subcontractors work in a safe and healthy environment, and we regard occupational health and safety as the primary task of maintaining our reputation.

We have established and maintained a safety management system in Macau according to the OHSAS 18001 international standard. Our system takes a preventive approach and focuses on crisis management and risk assessment. The Group conducts regular internal risk assessments and reviews every six months. It aims to provide information, training and supervision through the screening of risk and crisis control risk levels of different types of work, to enhance risk awareness and to better prepare for emergencies. We set up and maintain a safety management system for our Macau operation, and properly manage any violation of the system and to take remedial measures after the record and reviewso as to ensure site safety and health management are properly implemented in all the construction sites we managed and we comply with applicable laws and regulations.

Occupational safety and health data	
Total staff of the Group	86
The number of working days caused by accidents and diseases (professionalism) related to work	–

During the year ended 31 December 2018, the Group was not aware of any non-compliance with the health and safety laws and regulations.

B3. DEVELOPMENT AND TRAINING

General disclosure

Staff Development and Training

Employees are regarded as the Group's largest and most valuable assets and an essential part of maintaining a competitive advantage. The Group provides its staff with training courses for upgrading skills and development as needed.

The Group adheres to the "people-oriented" management concept. We built a multi-level, all-round, three-dimensional team with Space Group characteristics. This provide powerful talent support for sustainable development. We focus on the employees knowledge accumulation, professional skills development, and career planning. We provide a good working environment and practical training and also for the Group to build an energetic and positive working atmosphere. We established a good mechanism of cultivating and utilizing talents.

The Group encourages and supports the participation of employees in personal and professional training. We also encourage the culture of sharing of experience by organizing various forms of training form time to time to help employees for their career planning and improve their job performance.

B4. LABOUR STANDARDS

General disclosure

Prevention of Child Labor or Forced Labor

The Group strictly prohibits employing any child labor or forced labor in its operations. The Group has established a well-defined recruitment process which examines the background of candidates and a formal reporting procedure for handling any exception. During the recruitment process, the age of the applicant is verified against the identity documents of the applicant. In addition, the Group conducts regular reviews and inspections to prevent any child labor or forced labor in operation.

In the meantime, the Group also avoids engaging suppliers and subcontractors which are already known to be employing child labor or forced labor in their operations.

The Group has complied with the relevant laws and regulations such as the Labor Relation Law, Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour.

During the year ended 31 December 2018, the Group complied with all the laws and regulations relating to the prevention of child labor or forced labor. The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B5. SUPPLY CHAIN MANAGEMENT

General disclosure

Environmental and Social Risk Management of Supply Chain

The Group maintain an approved list of suppliers from Macau, Hong Kong and the People's Republic of China (the "PRC"). In selecting suppliers for a project, we evaluate them based on their scale of operation, our past cooperation with them, their capability to comply with the specified project requirements, price quotation, and time required by them to provide the required materials. We also review and update such list on a continuous basis. Based on these factors, our procurement department will coordinate with our project manager to select supplier from the approved list of suppliers to further negotiate purchase terms, and our executive Directors will review and approve the proposed supplier purchase order forms before execution. Our quantity surveyor will also examine the quantity and quality of materials ordered and the timing of delivery to ensure that the delivery meets our project schedules.

The Group's procurement department is also responsible for organizing the supplier evaluation work in two ways which include the ongoing project evaluation and the annual assessment. The evaluation results will serve as the basis of supplier management. Suppliers need to react quickly to the assessment result, taking effective measures to improve the services provided within prescribed period. The Group has the rights to terminate the cooperation with service providers who violate the rules or do not meet the targets.

The Group maintains close liaison with its suppliers to monitor its performance to ensure that it is consistent with its service commitment.

B6. PRODUCT RESPONSIBILITY

General disclosure

Quality and Safety of Products and Services

The Group pays high attention to the quality and safety of its services. The Group has established relevant quality and safety inspection policies for different projects, communicates with our customers and confirms their project expectation and direction prior launching any project, and actively coordinates projects with customers in the process of providing services. At the same time, we will continuously improve the customer service and complaint handling mechanism so as to protect the rights and interests of consumers, and provide customers with comfortable services.

The Group has established a system for the selection and management of subcontractors, including maintaining a list of approved subcontractors and regular inspection on the quality and progress performed by our project managers. In addition, our subcontractors must comply with the relevant laws and regulations relating to the safety and illegal labour of the site. We require the subcontractor to comply with and adopt all safety, building and structure measures and procedures specified in our safety management plan.

The Group extremely emphasizes the quality control of the property construction, including the purchase of building materials, external decoration, interior decoration and interior decoration materials and the machinery used on of construction projects, to ensure ow quality standards. The Group focuses on project monitoring to ensure that all are met projects comply with our quality standards and compliance with relevant legislation and regulations.

Intellectual Property Management

The Group is very concerned about the protection of intellectual property rights, and ensures that no infringement of intellectual property rights of other enterprises or individuals during the entire product life cycle starting from the project design. When the Group engages with its customers or suppliers, it will include the protection of intellectual property in the contractual terms as appropriate. The Group's legal department will also review all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights. The Group also requires technical professionals to sign strict confidentiality agreements. Confidential information of our customers is only accessible to employees who are responsible for the corresponding project.

During the year ended 31 December 2018, the Group complies with relevant laws governing the confidentiality of data and intellectual property, including but not limited to Macau Intellectual Property Law.

B7. ANTI-CORRUPTION

General disclosure

Prevention of Corruption and Fraud

Preventive Measures, Enforcement and Monitoring

The Group has implemented the Prevention of Commercial Bribery Management Policy, strengthening its internal control mechanism, anti-corruption and anti-bribery work so as to achieve the business philosophy of "abiding by the law, integrity and quality service".

Reporting Mechanism

The mechanism includes the establishment of an inspection team and the establishment of a channel for evaluation and reporting. It is strictly forbidden to use the business opportunities or powers to obtain personal interests or benefits. If there is a conflict of interest, it needs to be reported to the management of the Group on a timely basis. The Group also encourages employees and all persons with whom the Group does business, including customers and suppliers, to report the suspected wrongdoing within the Group voluntarily.

The Group has complied with major relevant laws and regulations of Macau, Hong Kong and the PRC.

During the year ended 31 December 2018, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

B8. COMMUNITY INVESTMENT

General Disclosure

Contributions to Society

As a responsible company, the Group actively strives to become a positive force in the community and maintains close communication and interaction with the community to contribute to community development.

The Group will also actively encourage employees to contribute their time and skills to community volunteer works to benefit local communities by giving them opportunities to learn more about social and environmental issues and enhance the corporate value of the Group.

The Group will consider from time to time to make donations to charities when the Group records after-tax profits and has sufficient funds.

Biographical Details of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Che Chan U **（謝鎮宇）**, aged 37, was appointed as our Director on 24 April 2017 and was re-designated as chairman and executive Director of the Group on 20 December 2017. Mr. Che is responsible for the Group's overall management, strategic planning and business development. He is also the Chairman of the nomination committee. As the founder of the Group, Mr. Che has over 10 years of experience in fitting out industry. Mr. Che is also the director of Companhia Space Grupo Limitada ("Space Group"), Space Construction & Engineering Co., Ltd.（恆宇建築工程有限公司）("Space Construction"), Space Oriental Construction & Engineering Co., Ltd.（恆宇東方建築工程有限公司）("Space Oriental") and Minsang Oriental Limited（敏生東方有限公司）("Minsang Oriental").

Mr. Che graduated in June 2004 from the National Taiwan University with the degree of Bachelor of Science in Engineering. In June 2015, he became a member of the IPlantE Professional Sector, a professional sector of the Society of Operations Engineers. He was registered as a Chartered Building Engineer and was elected a member of the Chartered Association of Building Engineers on 31 March 2017. He is a registered Civil Engineer with the Land, Public Works and Transport Bureau of the Macao Special Administrative Region since 2006. He is the son of Ms. Lei.

Ms. Lei Soi Kun（李瑞娟）, aged 60, is our executive Director. Ms. Lei was appointed as our Director on 24 April 2017 and redesignated as executive Director on 20 December 2017. She is responsible for the overall management of the Group's administrative matters. She is also a member of the nomination committee.

Ms. Lei has over 20 years of experience in fitting-out industry. From 1976 to 1990, she was an administrative clerk at Macau Fuhe Construction Property Co., Ltd（澳門福和建築置業有限公司）. She was a real estate agent and assisted her clients with renovation works from 1990 to 1993. Prior to joining the Group in 2009, Ms. Lei has been the director of Bo Ngai Engineering Co., Ltd, a company which carried out fitting-out business in Macau. Ms. Lei then joined the Group as a director in 2010 and has been handling the Group's administrative matters. She is the mother of Mr. Che.

Mr. Wan Yee Sang **（溫宜生）**, aged 56, is our executive Director. Mr. Wan was appointed as our Director on 24 April 2017 and redesignated as executive Director on 20 December 2017 and is mainly responsible for the overall management of the Group's business development and operation. He is also a member of the remuneration committee.

Mr. Wan obtained a Bachelor of Science in Building from the City University of Hong Kong (formerly the City Polytechnic of Hong Kong) in November 1989. Mr. Wan has over 20 years' experience in fitting-out industry for various types of buildings. Mr. Wan is currently the director of Minsang Oriental and Space Oriental with the principal activity of providing fitting-out services. From 1989 to 1993, he was a planning engineer at Gammon Construction Ltd. From 2007 to 2011, he was the Director of Situ-Minsang Engineering Limited. From 2009 to 2011, Mr. Wan was the director of Ming Sang (H.K.) Engineering Limited in Hong Kong and was involved in various fitting out and renovation projects including for an amusement park in Hong Kong. From 2009 to 2014, he was a Director and shareholder of Minsang Oriental Pte. Ltd.

Independent Non-Executive Directors

Mr. Fan Chun Wah, Andrew JP （范駿華太平紳士）, aged 40, was appointed as an independent non-executive Director on 20 December 2017 and is mainly responsible for overseeing the management independently and providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company. He is also the chairman of the audit committee, and a member of the nomination committee. Mr. Fan received the Bachelor of Business Administration in Accounting and Finance from the University of Hong Kong in December 1999 and the Bachelor of Laws from University of London as an external student in August 2007. In January 2003 and September 2011, Mr. Fan was admitted as a member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) and a fellow member of the Association of Chartered Certified Accountants respectively.

Mr. Fan has over 18 years of experience in accounting and compliance. He joined PricewaterhouseCoopers from September 1999 to November 2004 with his last position as Manager. Mr. Fan has been the managing director of Fan, Mitchell & Co., Limited since October 2017 and the partner of Fan, Mitchell & Co. since September 2016, the managing director of C.W. Fan & Co., Limited since November 2013 and the managing partner of C.W. Fan & Co. since January 2006. Mr. Fan was, or has been, a director of the following companies in the last three years preceding the date of this annual report:

Period of services	Name of the listed companies	Principal business activities	Position	Responsibilities
January 2013 to present	Chuang's China Investments Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 0298)	Property investment and development in Hong Kong and Mainland China	Independent non-executive Director	Board oversight and independent management
March 2013 to December 2016	LT Commercial Real Estate Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 0112)	Property development, property investment, securities investment, and finance activities in Hong Kong, Mainland China, and the US	Independent non-executive Director	Board oversight and independent management
March 2014 to present	Sinomax Group Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1418)	Marketing, manufacture, and distribution of visco-elastic health and wellness products	Independent non-executive Director	Board oversight and independent management

Period of services	Name of the listed companies	Principal business activities	Position	Responsibilities
October 2014 to present	Fulum Group Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1443)	Operation of full-service restaurant chain serving Cantonese cuisine in Hong Kong and in the PRC	Independent non-executive Director	Board oversight and independent management
April 2015 to present	Culturecom Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 0343)	Publishing comic books and provision of media content in Hong Kong, Mainland China, and Macau	Independent non-executive Director	Board oversight and independent management
July 2015 to May 2017	Hong Kong Resources Holdings Company Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 2882)	Retail and franchise of gold and jewellery products in Mainland China, Hong Kong, and Macau	Independent non-executive Director	Board oversight and independent management
September 2015 to August 2016	On Real International Holdings Limited, whose shares are listed on the GEM of the Stock Exchange (Stock Code: 8245)	Design and manufacturer of two-way radio product	Independent non-executive Director	Board oversight and independent management
January 2016 to present	Namson Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1982)	Knitwear manufacturer	Independent non-executive Director	Board oversight and independent management
June 2017 to present	Omnibridge Holdings Limited, whose shares are listed on the GEM of the Stock Exchange (Stock Code: 8462)	Human resources outsourcing and recruitment services	Independent non-executive Director	Board oversight and independent management
December 2017 to present	Sanbase Corporation Limited, whose shares are listed on the GEM of the Stock Exchange (Stock Code: 8501)	Provision of interior office fit-out management and solutions services	Independent non-executive Director	Board oversight and independent management

Period of services	Name of the listed companies	Principal business activities	Position	Responsibilities
January 2018 to present	CNC Holdings Limited, whose shares are listed on the GEM of the Stock Exchange (Stock Code: 8356)	Provision of civil engineering services for the public sector in Hong Kong and television	Independent non-executive Director	Board oversight and independent management

Mr. Eulógio dos Remédios, José António （李秉鴻）, aged 41, was appointed as an independent non-executive Director on 20 December 2017 and is mainly responsible for overseeing the management independently and providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company. He is also the chairman of the remuneration committee and a member of the audit and nomination committees. Mr. Eulógio dos Remédios obtained a Diploma in public relations from the Instituto Politécnico de Macau in 2002. He later obtained a Bachelor's degree in Law from the University of Macau in 2007. In July 2011, Mr. Eulógio dos Remédios became a lawyer under the Associação dos Advogados de Macau.

Mr. Eulógio dos Remédios has almost 10 years of experience in law. He was a trainee-lawyer at Jorge Neto Valente Lawyers and Notaries from October 2007 to April 2010 and is a lawyer at the same law firm from July 2011 to present. From August 2012 to June 2013, Mr. Eulógio dos Remédios was also a part-time lecturer at the University of Macau.

Ms. Leong Iat Lun （梁逸鸞）, aged 44, was appointed as an independent non-executive Director on 20 December 2017 and is responsible for overseeing the management independently and providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company. She is also a member of the audit, remuneration and nomination committees. Ms. Leong obtained a Bachelor's degree in Clinical Medicine from Shantou University Medical College, China, in June 2000. In April 2007, Ms. Leong obtained her Master of Laws from the Macau University of Science and Technology. In 2012, Ms. Leong obtained a Master's degree in Applicable Psychology from the South China Normal University in Guangdong. Ms. Leong obtained her Master's degree in Surgery from Jinan University, China, in June 2014. Ms. Leong holds a medical license issued by the Macau Health Bureau since 2002 and a medical license issued by the People's Republic of China since 2004. In 2009, she obtained a Diploma of General Surgery issued by the People's Republic of China.

Ms. Leong has more than 16 years of experience in medicine. She joined Kiang Wu Hospital Charitable Association from December 2000 to January 2009 with her last position as an Attending Doctor in the Surgical Department. From May 2007 to November 2007, she completed training at the Breast Disease Centre of Kwong Wah Hospital in Hong Kong. Ms. Leong is also currently a clinical instructor and an associate doctor specializing in breast surgery at the Macau University of Science and Technology Foundation.

SENIOR MANAGEMENT

The following table sets forth certain information of our senior management as at the date of this annual report:

Name	Age	Position	Roles and Responsibilities	Date of joining the Group
Mr. Ho Kwong Yu （何光宇）	33	Company Secretary & Chief Financial Officer	overall management of financial matters and the company secretarial matters of the Group	7 April 2017
Mr. Wong Wai Lam （黃偉琳）	50	Project Director	overall management of the Group's fitting-out and construction projects in Hong Kong	3 September 2018
Mr. Teoh Lin （張麟）	42	Deputy Project Director	overall management of the Group's fitting-out and construction projects in Macau	1 June 2018
Ms. Lam Ying （林凝）	39	Design Director	design of the Group's fitting-out projects	28 April 2017
Mr. He Mi Chen （何覓晨）	35	Deputy Project Development Director	development of the Group's fitting-out and construction projects	1 June 2018
Mr. Ho King To （何景滔）	38	Senior Finance and Accounting Manager	finance and accounting matters	10 August 2013
Mr. Ho Hok Shing （何學承）	35	Senior Finance Manager	financial reporting matters	7 May 2018

Our senior management is responsible for the day-to-day management of our business.

Mr. Ho Kwong Yu（何光宇）, aged 33, is the company secretary and chief financial officer and is mainly responsible for overall management of financial matters and company secretarial matters of the Group. Mr. Ho has over 10 years of audit, accounting and financial management experience. He is the Group's Company Secretary.

Mr. Ho obtained his Bachelor of Business Administration (Major in Professional Accountancy) from the Chinese University of Hong Kong in 2008. He is also a member of The Hong Kong Institute of Certified Public Accountants.

From January 2008 to February 2015, Mr. Ho worked at Deloitte Touche Tohmatsu and his last position held was manager in the audit department. From February 2015 to May 2015, Mr. Ho was an internal audit manager at Cosco Shipping International (Hong Kong) Co., Ltd. (formerly named as Cosco International Limited) (Stock Code: 517) and was responsible for conducting internal audit. His last position prior to joining the Group was chief financial officer and company secretary of Creative China Holdings Limited (Stock Code: 8368) where he was responsible for accounting, financial management and company secretarial matters. Mr. Ho has been appointed as an independent non-executive director of Most Kwai Chung Limited (Stock Code: 1716) since March 2018 and Sino Golf Holdings Limited (Stock Code: 361) since November 2018.

Mr. Wong Wai Lam（黃偉琳）, aged 50, is the project director. He joined us on 3 September 2018 and mainly responsible for the overall management of the Group's fitting-out and construction projects in Hong Kong. Mr. Wong obtained his Bachelor of Civil Engineering from the Birmingham University in June 1991.

Mr. Wong has over 20 year of experience as an engineer in the engineering industry. From January 2014 to September 2014, he was employed at HCCG Building and Engineering (Macau) Limited with his last position as Deputy Project Manager. Mr. Wong's last position from September 2014 to August 2018 prior to joining the Group was as Project Manager with Zhen Hwa Harbour Construction Company Limited.

Mr. Teoh Lin（張麟）, aged 42, is the deputy project director. He joined us on 1 June 2018 and mainly responsible for the overall management of the Group's fitting-out and construction projects in Macau. Mr. Teoh obtained his Degree of Construction Project Management from the HKU School of Professional Continuing Education in July 2000.

Mr. Teoh has nearly 20 years of experience as an engineer in the engineering industry. Mr. Teoh's last position from April 2011 to March 2017 prior to joining the Group was as Sub Agent with Leighton Contractors (Asia) Limited.

Ms. Lam Ying（林凝）, aged 39, is the design director. She joined us on 28 April 2017 and mainly responsible for the design of the Group's fitting-out projects in Macau. Ms. Lam obtained her Bachelor of Architecture from the Huaqiao University in June 2003.

Ms. Lam has over 15 years of experience as an architect in the construction industry. From October 2006 to October 2012, she was employed at G.L.-Project Design and Consultant Company Limited with her last position as Architect. Ms. Lam's last position from November 2012 to March 2017 prior to joining the Group was as Architect with Z2 Design and Engineering Company Limited. Ms. Lam is also a registered Architect in Land, Public Works and Transport Bureau, Macau.

Mr. He Mi Chen（何覓晨）, aged 35, is the deputy project development director. He joined us on 1 June 2018 and mainly responsible for the development of the Group's fitting-out and construction projects. Mr. He obtained his Bachelor of Civil Engineering from the Colleague of Architecture and Civil Engineering of BIUT in July 2006 and obtained his Master of Urban Planning from the Universite Francois Rabelais De Tours Ecole Polytechnique in December 2009.

From August 2014 to March 2016, he was employed at Zhuhai Da Heng Qin Company Limited with his last position as Head of Land Developing and Planning Department. Mr. He's last position from March 2016 to June 2018 before joining the Group was as Deputy Business Manager with Zhuhai Da Heng Qin Treval Development Limited. Mr. He is also a registered Urban Planning in PRC.

Mr. Ho King To（何景滔）, aged 38, is the senior finance and accounting manager. He joined us on 10 August 2013 and is mainly responsible for finance and accounting matters. Mr. Ho has over 8 years of clerical experience and 4 years of accounting experience. From July 2005 to August 2013, he was employed by Café de Coral Holdings Limited as a General Clerk in the strategic business unit.

Mr. Ho obtained his Advanced Diploma in Accounting from the University of Hong Kong School of Professional and Continuing Education in October 2012. He obtained his Bachelor of Accounting from the University of Canberra through a part-time program co-organized with the Hong Kong Baptist University School of Continuing Education in September 2016.

Mr. Ho Hok Shing（何學承）, aged 35, is the senior Finance manager. He joined us on 7 May 2018 and is mainly responsible for the financial reporting matters. Mr. Ho obtained his Bachelor of Accounting and Economics from the Coventry University in 2006. He is also a member of The Hong Kong Institute of Certified Public Accountants.

From September 2008 to March 2014, Mr. Ho worked at Deloitte Touche Tohmatsu and his last position held was audit senior in the audit department. From October 2016 to September 2017, Mr. Ho was employed as an Accounting Manager at Union Duty Free Limited. Mr. Ho's last position from December 2017 to May 2018 prior to joining the Group was as Finance Manager with a company listed on the Main Board of the Hong Kong Stock Exchange.

The Directors are pleased to present to the Shareholders their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding. Particulars of the Company's principal subsidiaries are set out in note 13 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 63 of this annual report.

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

BUSINESS REVIEW

A fair review of the business of the Group during the year and a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 3 to 10 of this annual report. Discussions on the social, labour and environmental policies and performance are set out in the "Environmental, Social and Governance Report" on pages 21 to 33 of this annual report.

The above discussions form part of this directors' report.

PRINCIPAL RISKS AND UNCERTAINTY

Various risks and uncertainties that the Group may face: (i) the Group's contracts are awarded through tendering or quotation processes and not recurring in nature and its future business depends on our continual success in project tenders or quotations; (ii) the Group's performance is dependent on market conditions and trends in the fitting-out industry and building construction industry in Macau which may change adversely; (iii)the Group depends on its subcontractors to complete a substantial part of the works of its projects and bear the risks associated with fluctuations in subcontracting fees, substandard performance and stability of their operations. In view of the risks associated with financial instruments, the objectives and policies of Group are set out in note 23 to the consolidated financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

Strenuous efforts are exerted to ensure compliance with the laws and regulations of the jurisdictions in which the Company operates.

In relation to human resources, the Group provides and maintains statutory benefits for its staff, including but not limited to entitlement to mandatory provident fund, basic medical insurance, work injury insurance, etc. staff is entitled to day-off on public holidays and maternity leave.

At the corporate level, the Group complies with the requirements under the Listing Rules and the Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong (the "SFO") for, among other things, the disclosure of information and corporate governance, and the Group has adopted the Model Code set out in Appendix 10 to the Listing Rules.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in Cayman Islands. The Shares of the Company were listed on the Main Board of the Stock Exchange with effect from 16 January 2018.

In connection with the Listing of the shares of the Company on the Stock Exchange, 190,000,000 new Shares of HK$0.01 each of the Company were issued at a price of HK$1.20 per Share for a total cash consideration, before expenses, of HK$228,000,000 (equivalent to approximately MOP234,340,000). Dealings in the Shares on the Stock Exchange commenced on 16 January 2018.

Upon the creation of the Company's share premium account as a result of the share offer, an amount of HK$5,700,000 (equivalent to approximately MOP5,871,000) standing to the credit of the share premium account of the Company has been capitalised on 16 January 2018 by applying such sum towards paying up in full at par a total of 569,999,800 ordinary shares for allotment and issue to the then existing Shareholders. Immediately following the completion of the share offer and the capitalisation issue, the total outstanding Shares of the Company was 760,000,000 Shares including the 190,000,000 Shares issued upon the share offer.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers and subcontractors and suppliers.

Employees

Employees are regarded as important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group's major customers included hotel and casino gaming operators and main contractors in Macau. The Group provides professional and quality services in fitting-out business whilst maintaining long term profitability, business and asset growth.

Subcontractors and Suppliers

The Group firmly believes that its subcontractors and suppliers are equally important in cost control and increasing our bargaining power on procurement of materials, which further secures our competitive position when bidding for tenders. The Group proactively communicates with its subcontractors and suppliers to ensure they are committed to delivering high-quality and sustainable products and services. Unless the customers require the Group to engage subcontractors and suppliers nominated by them, the Group will select subcontractors and suppliers from our pre-qualified lists of subcontractors and suppliers. In addition, during the continuance of the contracts with our subcontractors, the Group will supply them with our internal guidelines on safety and environmental issues and require them to follow. The Group effectively implements the subcontractor assessment process by conducting regular site visit, evaluation on the performance of contract and other measures, to ensure the performance of our subcontractors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group believes that its business also depends on our ability to meet our customers' requirements in respect of safety, quality and environmental aspects. To meet our customers' requirements on safety, quality and environmental aspects, we have established safety, quality and environmental management systems. Through the systematic and effective control of our operations, compliance with safety, quality and environmental requirements can be further assured. We believe that our certifications to ISO 9001 and ISO 14001 enhance our public image and credibility and also help us to improve our customers' confidence in our services. Details of the Group's environmental policies and performance are set out in the section headed "Environmental, Social and Governance Report".

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 67.

MATERIAL INVESTMENT AND ACQUISITION

During the year ended 31 December 2018, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2018 are set out in note 19 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year and details of the Group's property, plant and equipment are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

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

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to the "Share Option Scheme", no equity-linked agreements were entered into during the year ended 31 December 2018 or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to article 164 of the Articles of Association, subject to relevant laws, every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

DIRECTORS

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

Executive Directors
Mr. Che Chan U *(Chairman)*
Ms. Lei Soi Kun
Mr. Wan Yee Sang

Independent Non-executive Directors
Mr. Fan Chun Wah, Andrew
Mr. Eulógio dos Remédios, José António
Ms. Leong Iat Lun

In accordance with the Company's Articles of Association, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years and, being eligible, offer themselves for re-election for the forthcoming year. Mr. Che Chan U, Ms. Lei Soi Kun, Mr. Wan Yee Sang, Mr. Fan Chun Wah, Andrew, Mr. Eulógio dos Remédios, José António and Ms. Leong Iat Lun will retire at the forthcoming AGM and will offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a fixed term of three years commencing from the Listing Date, unless terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term.

Each of the independent non-executive Directors have been appointed on 20 December 2017 and are subject to retirement by rotation and re-election at AGM of the Company at least once every three years and until terminated by not less than three months' notice in writing served by either the Company or the respective independent non-executive Director.

No Directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

As at the date of this annual report, the interests and short positions of each Director and CEO in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

The Company

Name of Director	Capacity	Number of Shares held/ interested[1]	Approximate percentage of the total issued Shares
Che Chan U ("Mr.Che")	Interest held jointly with another person; interest in a controlled corporation[2]	541,500,000 Shares (L)	71.25%
Lei Soi Kun ("Ms. Lei")	Interest held jointly with another person; interest in a controlled corporation[2]	541,500,000 Shares (L)	71.25%
Wan Yee Sang ("Mr. Wan")	Interest held jointly with another person; interest in a controlled corporation[3]	28,500,000 Shares (L)	3.75%

Notes:

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

(2) The Company was held as to approximately 71.25% by Space Investment (BVI) Ltd ("Space Investment"). Space Investment is held as to 94.74% by Mr. Che and 5.26% by Ms. Lei.

(3) The Company was held as to 3.75% by SW Construction. SW Construction is held as to 100% by Mr. Wan.

Associated corporation

Name of Director	Name of associated corporation	Capacity	Number of Shares held/ interested(1)	Approximate percentage of the total issued Shares
Mr. Che	Space Investment	Beneficial owner	9,474 shares (L)	94.74%
Ms. Lei	Space Investment	Beneficial owner	526 shares (L)	5.26%

Notes:

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

Save as disclosed above, as at the date of this annual report, none of the Directors and CEO had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or its subsidiaries a party to any arrangements to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

On 20 December 2017, a share option scheme (the "Share Option Scheme") was approved and adopted by the Shareholders, under which, options may be granted to any Eligible Participants (as defined below) to subscribe for Shares subject to the terms and conditions stipulated in the Share Option Scheme. The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees.

The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine to the following persons (the "Eligible Participants"): (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are: (aa) contribution to the development and performance of the Group; (bb) quality of work performed for the Group; (cc) initiative and commitment in performing his/her duties; and (dd) length of service or contribution to the Group.

The maximum number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 76,000,000 Shares, being 10% of the shares in issue as at the Listing Date.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other scheme of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting.

An offer for the grant of option must be accepted within 28 days from the offer date. Options granted shall be taken up upon payment of HK$1 as consideration for the grant of option. Options may be exercised at any time from the date which option is deemed to be granted and accepted and expired on the date as the Board in its absolute discretion determine and which shall not exceeding a period of 10 years from the date on which the share options are deemed to be granted and accepted but subject to the provisions for early termination thereof contained in the Share Option Scheme.

The subscription price for the ordinary shares under the Share Option Scheme shall be determined by the Board and shall not be less that the highest of: (i) the closing price of the 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; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing from 20 December 2017.

No share option has been granted by the Company under the Share Option Scheme since its adoption up to the date of this annual report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the date of this annual report, according to the register kept by the Company under Section 336 of the SFO, the corporations or persons (other than a Director or CEO) had interests of 5% or more in the Shares or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholders	Capacity	Number of Shares held/ interested[(1)]	Approximate percentage of the total issued Shares
Space Investment	Beneficial owner[(2)]	541,500,000 Shares (L)	71.25%
Ng Lai Kuan ("Ms. Ng")	Interest of spouse[(3)]	541,500,000 Shares (L)	71.25%
Loi Ka Hou	Beneficial owner[(4)]	66,665,000 Shares (L)	8.77%

Notes:

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

(2) Space Investment is directly interested in 71.25% in the Company.

(3) Ms. Ng is the spouse of Mr. Che. Ms. Ng is deemed to be interested in the same number of Shares in which Mr. Che is interested by virtue of the SFO.

(4) According to the disclosure of interest filing by Loi Ka Hou dated 17 January 2018, Loi Ka Hou purchased 66,665,000 Shares on 16 January 2018.

Save as disclosed above, as at the date of this annual report, no other person (other than a Director or CEO) had registered an interest or short position in the Shares, underlying Shares and debentures of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected Transactions" and the related party transactions as disclosed in note 25 to the consolidated financial statements, there were no other transactions, arrangements or contracts that are significant in relation to the business of the Group to which the Company or any of its subsidiary was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at any time during the year ended 31 December 2018.

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 existed during the year ended 31 December 2018.

RELATED PARTY TRANSACTIONS

Significant related party transactions made during the year ended 31 December 2018 were disclosed in note 25 to the consolidated financial statements.

COMPETING INTEREST

There were no competing business of which any Directors or their respective close associates had a material interest, whether directly or indirectly, subsisted as at 31 December 2018 or at any time during the year ended 31 December 2018.

DEED OF NON-COMPETITION

Each of Mr. Che, Ms. Lei and Space Investment (each a "Non-Compete Covenantor") has entered into a deed of non-competition ("Deed of Non-competition") dated 22 December 2017 with the Company, to the effect that each of them will not directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the business of the Group from time to time.

The Company has received the annual confirmation of the Non-Compete Covenantors in respect of their compliance with the noncompetition undertakings under the Deed of Non-competition during the year ended 31 December 2018. The independent non-executive Directors also reviewed the Non-Compete Covenantors' compliance with the non-competition undertakings.

The independent non-executive Directors confirmed that the Non-Compete Covenantors were not in breach of the noncompetition undertakings during 31 December 2018.

REMUNERATION POLICY

The remuneration policy of the Group is set up by the Remuneration Committee on the basis of market trends and the individuals' merit, qualifications and competence.

The Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics, made recommendations to the Board for all remuneration of the executive Directors and senior management of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

None of the Company or any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

TAX RELIEF AND EXEMPTION

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holding of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group had not entered into any connected transaction which is required to be disclosed under Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE REPORT

The corporation governance report of the Group during the year ended 31 December 2018 is set out in the sections headed "Corporate Governance Report" on pages 11 to 20 of this annual report.

MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

During the year ended 31 December 2018, sales to the Group's five largest customers accounted for approximately 90.8% of the Group's sales for the year and sales to the Group's largest customer included therein accounted for approximately 40.8%.

During the year ended 31 December 2018, purchase from the Group's five largest suppliers accounted for approximately 83.3% of the Group's total purchases for the year and purchase from the Group's largest supplier included therein accounted for approximately 76.4%.

During the year ended 31 December 2018, subcontracting fees paid/payable to the Group's five largest subcontractors accounted for approximately 73.7% of the Group's total subcontracting fees and subcontracting fees paid/payable to the Group's largest subcontractor accounted for approximately 41.3%.

None of the Directors, their close associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

USE OF PROCEEDS FROM SHARE OFFER

The Shares of the Company were listed on the Main Board of the Stock Exchange on 16 January 2018 with net proceeds received by the Company from the Share Offer in the estimated amount of HK$188.8 million after deducting underwriting commissions and all related expenses. The net proceeds received from the Share Offer are intended to be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

From the Listing Date to the date of this report, the net proceeds had been applied as follows:

Use of Net Proceeds from the Share Offer

	Net proceeds (HK$ million)		
	Available	**Utilised**	**Unutilised**
Finance fitting-out projects	46.1	46.1	–
Finance building construction projects	127.6	127.6	–
General working capital	15.1	15.1	–
Total	188.8	188.8	–

SUBSEQUENT EVENTS

Save as disclosed in this annual report, there was no important event affecting the Group that had occurred since the end of 31 December 2018.

PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 141.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the Shareholders' eligibility to attend and vote at the AGM of the Company to be held on 25 June 2019 (Tuesday) (the "2018 AGM"), the register of members of the Company will be closed from 20 June 2019 (Thursday) to 25 June 2019 (Tuesday), both days inclusive. During the closure period, no transfer of Shares will be registered. To be eligible to attend and vote at the 2018 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 19 June 2019 (Wednesday).

AUDITOR

The accompanying consolidated financial statements have been audited by KPMG who shall retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. Having approved by the Board upon the recommendation of the Audit Committee, a resolution to re-appoint KPMG as the independent auditor of the Company and to authorise the Board to fix its remuneration will be proposed at the forthcoming AGM.

On behalf of the Board

Che Chan U
Chairman

Hong Kong, 31 March 2019

* For identification purposes only

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of
Space Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Space Group Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 63 to 140, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Independent auditor's report to the shareholders of Space Group Holdings Limited (continued)
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (Continued)

Contract accounting estimates

Refer to notes 3 and 4 to the consolidated financial statements and accounting policies in notes 2(h) and 2(p)

The Key Audit Matter	How the matter was addressed in our audit
The Group recorded revenue from the provision of fitting-out and building construction works totalling MOP406 million for the year ended 31 December 2018. Contract revenue is recognised progressively over time using the output method, based on direct measurements of the value of services delivered or surveys of work performed and the estimated total revenue for the contracts entered into by the Group. Contract costs are recognised when work is performed, together with any provisions for expected contract losses. Management reviews and revises the estimates of contract revenue, contract costs and variation orders for each construction contract by comparing the most current budgeted amounts with corresponding actual amounts as the contract work progresses. The recognition of revenue and profit relies on management's estimate of the final outcome of each contract, which involves the exercise of significant management judgement, particularly in forecasting the costs to complete a contract, in valuing contract variations, claims and liquidated and ascertained damages, in estimating the amount of expected losses and in assessing the ability of the Group to deliver services according to the agreed timetable.	Our audit procedures to assess contract accounting estimates included the following: • assessing the design and implementation of key internal controls over the contract revenue recognition processes; • discussing with management the performance of contracts in progress during the year, on a sample basis, and challenging the key estimates and assumptions adopted in the forecasts for contract revenue and contract costs, including estimated costs to completion, the recognition of variation orders, the adequacy of contingency provisions and the assessment of potential liquidated and ascertained damages for contracts which were behind schedule, by obtaining and evaluating relevant information in connection with the assumptions adopted, including contract agreements and subcontracts, correspondence with customers regarding contract variations and claims and by considering historical outcomes for similar contracts;

Independent auditor's report to the shareholders of Space Group Holdings Limited (continued)
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (Continued)

Contract accounting estimates (continued)

Refer to notes 3 and 4 to the consolidated financial statements and accounting policies in notes 2(h) and 2(p)

The Key Audit Matter	How the matter was addressed in our audit
We identified contract accounting estimates as a key audit matter because the estimation of the total contract revenue and total costs to complete contracts is inherently subjective and requires significant management judgement and estimation and because errors in the forecast of contract revenue and contract costs could result in a material variance in the amount of profit or loss recognised from contracts to date and, therefore, in the current period.	• obtaining a detailed breakdown of the total estimated costs to completion for all contracts in progress during the year and comparing, on a sample basis, actual costs incurred to the reporting date and future cost estimates with agreements, certifications or correspondence with subcontractors and suppliers and other documentation referred to by management in its assessment of the estimated costs to completion. • for all projects in progress at the reporting date, challenging the assumptions and critical judgements made by management which impacted their estimations of the liquidated and ascertained damages assessments by comparing the key terms and conditions in the assessments with contract agreements with customers and by comparing the estimated contract completion time with the Group's updated progress report or correspondence from customers; • comparing the contract revenue recognised for contracts in progress during the year, on a sample basis, with reference to the certifications from the surveyors appointed by the customers or payment applications from the in-house surveyor;

Independent auditor's report to the shareholders of Space Group Holdings Limited (continued)
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (Continued)

Contract accounting estimates (continued)

Refer to notes 3 and 4 to the consolidated financial statements and accounting policies in notes 2(h) and 2(p)

The Key Audit Matter	How the matter was addressed in our audit
	• conducting site visits, on a sample basis, to observe the progress of individual contracts, discussing with site personnel the status of each project and evaluating whether the project progress was consistent with the agreed timetable and the Group's financial accounting records; • performing a retrospective review of contracts completed during the current year by comparing the final outcome of the contracts with previous estimates made for those contracts to assess the reliability of the management's forecasting process; and • inspecting a sample of contract agreements with customers and subcontractors to identify key terms and conditions, including the contracting parties, the contract period, the contract sum, the scope of work, the methodology for calculating liquidated and ascertained damages, and evaluating whether these key terms and conditions had been appropriately reflected in the total estimated revenue and costs to complete in the forecast of the outcome of the contracts.

Independent auditor's report to the shareholders of Space Group Holdings Limited (continued)
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (Continued)

Loss allowance for trade debtors

Refer to note 16 to the consolidated financial statements and accounting policies in notes 2(g)(i) and 2(i)

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2018, the Group's gross trade debtors totalled MOP337 million and loss allowance of MOP2 million was recorded. Management measured loss allowance at an amount equal to lifetime expected credit loss, based on ageing of the trade debtors and loss rate, for the trade debtors existed during the reporting periods in which HKFRS 9, *Financial instruments*, was applicable. We identified loss allowance for trade debtors as a key audit matter because trade debtors and loss allowance are material to the Group and because the recognition of expected credit losses is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance of trade debtors included the following: • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, estimate of expected credit losses and making related allowances; • Obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by management, including the historical default data, and the assumptions involved in management's estimated loss rate; • Assessing the reasonableness of management's loss allowance estimates by examining the information, on a sample basis, used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • Assessing whether items were correctly categorised in the trade debtors ageing report by comparing a sample of individual items with the underlying documentation; and

Independent auditor's report to the shareholders of
Space Group Holdings Limited (continued)
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (Continued)

Loss allowance for trade debtors (continued)

Refer to note 16 to the consolidated financial statements and accounting policies in notes 2(g)(i) and 2(i)

The Key Audit Matter	How the matter was addressed in our audit
	• Comparing, on a sample basis, cash receipts from debtors subsequently to the financial year relating to trade debtors at 31 December 2018 with bank-in slips.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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.

Independent auditor's report to the shareholders of
Space Group Holdings Limited (continued)
(Incorporated in the Cayman Islands with limited liability)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, 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.

Independent auditor’s report to the shareholders of
Space Group Holdings Limited (continued)
(Incorporated in the Cayman Islands with limited liability)

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 scepticism 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.

Independent auditor's report to the shareholders of
Space Group Holdings Limited (continued)
(Incorporated in the Cayman Islands with limited liability)

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

We communicate with the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 the Audit Committee, 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 this independent auditor's report is Lee Ling Tak, Maggie.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

(Expressed in Macau Pataca)

	Note	2018 MOP'000	2017 (Note) MOP'000
Revenue	4	405,742	482,389
Direct costs		(299,175)	(382,459)
Gross profit		106,567	99,930
Other income	5	4,923	34,185
General and administrative expenses		(32,426)	(25,398)
Profit from operations		79,064	108,717
Finance costs	6(a)	(6,086)	(5,735)
Profit before taxation	6	72,978	102,982
Income tax	7(a)	(11,377)	(13,595)
Profit for the year		61,601	89,387
Attributable to:			
Equity shareholders of the Company		61,601	86,213
Non-controlling interests		–	3,174
Profit for the year		61,601	89,387
Earnings per share			
– Basic and diluted	11	MOP0.08	MOP0.15

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 69 to 140 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 22(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Macau Pataca)

	Note	2018 MOP'000	2017 (Note) MOP'000
Profit for the year		61,601	89,387
Other comprehensive income for the year	10		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of operations based outside Macau		(18)	–
Total comprehensive income for the year		61,583	89,387
Attributable to:			
Equity shareholders of the Company		61,583	86,213
Non-controlling interests		–	3,174
Total comprehensive income for the year		61,583	89,387

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 69 to 140 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Macau Pataca)

	Note	31 December 2018 MOP'000	31 December 2017 (Note) MOP'000
Non-current assets			
Property, plant and equipment	12	88,224	88,155
Current assets			
Contract assets	14	57,219	–
Gross amounts due from customers for contract work	15	–	9,284
Trade and other receivables	16	413,359	297,398
Pledged deposits	17(e)	11,911	26,726
Bank deposits	17(a)	10,300	–
Cash and cash equivalents	17(a)	13,846	17,201
		506,635	350,609
Current liabilities			
Gross amounts due to customers for contract work	15	–	9,807
Trade and other payables	18	99,378	187,904
Bank loans and overdrafts and other borrowings	19	145,519	191,393
Tax payable	20(a)	27,947	15,652
		272,844	404,756

(Expressed in Macau Pataca)

	Note	31 December 2018 MOP'000	31 December 2017 (Note) MOP'000
Net current assets/(liabilities)		233,791	(54,147)
Total assets less current liabilities		322,015	34,008
Non-current liability			
Bank loans and other borrowings	19	–	71
NET ASSETS		322,015	33,937
CAPITAL AND RESERVES			
Share capital	22(c)	7,828	5,871
Reserves		314,138	28,066
Total equity attributable to equity shareholders of the Company		321,966	33,937
Non-controlling interests		49	–
TOTAL EQUITY		322,015	33,937

Approved and authorised for issue by the board of directors on 31 March 2019.

Che Chan U
Director

Lei Soi Kun
Director

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 69 to 140 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Expressed in Macau Pataca)

		Attributable to equity shareholders of the Company								
	Note	Share capital MOP'000	Share premium MOP'000	Legal reserve MOP'000	Other reserve MOP'000	Exchange reserve MOP'000	Retained profits MOP'000	Total MOP'000	Non-controlling interests MOP'000	Total equity MOP'000
Balance at 1 January 2017		150	–	100	–	–	74,571	74,821	8,561	83,382
Changes in equity for 2017:										
Profit and total comprehensive income for the year		–	–	–	–	–	86,213	86,213	3,174	89,387
Dividends declared	22(b)	–	–	–	–	–	(132,576)	(132,576)	(6,257)	(138,833)
Incorporation of the Company	22(c)(i)	*–	–	–	–	–	–	*–	–	*–
Incorporation of an intermediate holding company prior to completion of the reorganisation		1	–	–	–	–	–	1	–	1
Transferred from retained profits		–	–	50	–	–	(35)	15	(15)	–
Capitalisation issue	22(c)(iii)	5,871	(5,871)	–	–	–	–	–	–	–
Acquisition of interests from the non-controlling shareholders upon completion of the reorganisation		–	–	–	5,463	–	–	5,463	(5,463)	–
Arising from reorganisation	22(c)(iv)	(151)	33,938	–	(33,787)	–	–	–	–	–
Balance at 31 December 2017 (Note)		5,871	28,067	150	(28,324)	–	28,173	33,937	–	33,937
Impact on initial application of HKFRS 15		–	–	–	–	–	8,250	8,250	–	8,250
Impact on initial application of HKFRS 9		–	–	–	–	–	(1,516)	(1,516)	–	(1,516)
Adjusted balance at 1 January 2018		5,871	28,067	150	(28,324)	–	34,907	40,671	–	40,671
Changes in equity for 2018:										
Profit the year		–	–	–	–	–	61,601	61,601	–	61,601
Other comprehensive income	10	–	–	–	–	(18)	–	(18)	–	(18)
Total comprehensive income		–	–	–	–	(18)	61,601	61,583	–	61,583
Issuance of shares under initial public offering ("IPO"), net of issuing expenses	22(c)(v)	1,957	217,755	–	–	–	–	219,712	–	219,712
Incorporation of a non-wholly owned subsidiary		–	–	–	–	–	–	–	49	49
Balance at 31 December2018		7,828	245,822	150	(28,324)	(18)	96,508	321,966	49	322,015

* The balances represent amounts less than MOP1,000.

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 69 to 140 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

(Expressed in Macau Pataca)

	Note	2018 MOP'000	2017 (Note) MOP'000
Operating activities			
Cash used in operations	17(b)	(180,627)	(42,967)
Tax paid		–	(18,726)
Net cash used in operating activities		(180,627)	(61,693)
Investing activities			
Payment for the purchase of property, plant and equipment		(258)	(57,371)
Proceeds from disposal of property, plant and equipment		–	28,733
Interest received		962	295
(Increase)/decrease in bank deposits		(10,300)	1,113
Net cash used in investing activities		(9,596)	(27,230)
Financing activities			
Payment of listing expenses		(10,795)	(2,944)
Proceeds from issuance of shares		234,840	–
Proceeds from new bank loans and other borrowings	17(d)	330,588	391,298
Repayment of bank loans and other borrowings	17(d)	(356,771)	(353,904)
Interest paid	17(d)	(6,086)	(5,735)
Decrease in pledged deposits		14,815	10,921
Proceeds from a non-controlling shareholder for incorporation of a subsidiary		49	–
Receipt from directors		5,133	230,128
Payment to directors		(5,143)	(179,275)
Proceeds from incorporation of an intermediate holding company prior to completion of the reorganisation		–	1
Net cash generated from financing activities		206,630	90,490
Net increase in cash and cash equivalents		16,407	1,567
Cash and cash equivalents at the beginning of the year		(7,428)	(8,995)
Cash and cash equivalents at the end of the year	17(a)	8,979	(7,428)

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 69 to 140 form part of these financial statements.

1 GENERAL INFORMATION

Space Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the fitting-out works and building construction works. The Company was incorporated in the Cayman Islands on 24 April 2017 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation of the Group (the "Reorganisation") which was completed on 20 December 2017 to rationalise the corporate structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 28 December 2017 (the "Prospectus").

The above mentioned principal activities of the Group were carried out by Space Construction & Engineering Co., Ltd. ("Space Construction") and its subsidiaries and Space Construction and Engineering (Hong Kong) Ltd, all of which were under the joint control Mr. Che Chan U and Ms. Lei Soi Kun.

As the control is not transitory and, consequently, there was a continuation of risks and benefits to the controlling shareholders, the Reorganisation is considered to be a restructuring of entities under common control. The financial information before the completion of the Reorganisation has been prepared using the merger basis of accounting as if the Group has always been in existence.

The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement of the Group include the results of operations of the Company and its subsidiaries for 2017 as if the Reorganisation was completed at 1 January 2017. The consolidated statement of financial position of the Group as at 31 December 2017 has been prepared to present the financial position of the Company and its subsidiaries as if the entities now comprising the Group had been consolidated as at that date.

The Company's shares were listed on the Stock Exchange on 16 January 2018.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

These financial statements are presented in Macau Pataca ("MOP"). The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits and the related tax impact at 1 January 2018.

	MOP'000
Retained profits	
Recognition of additional expected credit losses on:	
– Trade and other receivables	(1,517)
– Contract assets	(206)
Related tax	207
Net decrease in retained profits at 1 January 2018	(1,516)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, *Financial instruments* (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, the classification for all the Group's financial assets and financial liabilities measured at amortised costs remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, bank deposits, pledged deposits and trade and other receivables); and

– contract assets as defined in HKFRS 15 (see note 2(h)).

For further details on the Group's accounting policy for accounting for credit losses, see note 2(g).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, *Financial instruments* (Continued)

b. Credit losses (Continued)

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	MOP'000
Loss allowance at 31 December 2017 under HKAS 39	522
Additional credit loss recognised at 1 January 2018 on:	
– Trade and other receivables	1,517
– Contract assets recognised on adoption of HKFRS 15	206
Loss allowance at 1 January 2018 under HKFRS 9	2,245

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except that information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarises the impact of transition to HKFRS 15 on retained profits and the related tax impact at 1 January 2018:

	MOP'000
Retained profits	
Earlier revenue and deferral of cost recognition	9,374
Related tax	(1,124)
Net increase in retained profits at 1 January 2018	8,250

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Timing of revenue recognition*

Previously, revenue arising from construction contracts and provision of services was recognised over time.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

a. Timing of revenue recognition (Continued)

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

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The Group recognises revenue over time only if it can reasonably measure its progress toward complete satisfaction of the performance obligation. However, if the Group cannot reasonably measure the outcome but expects to recover the costs incurred in satisfying the performance obligation, then it recognises revenue to the extent of the costs incurred.

As a result of this change in accounting policy, the Group has made opening adjustments at 1 January 2018 which increased retained profits by MOP1,034,000, increased contract assets by MOP1,175,000 and increased tax payable by MOP141,000.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

b. Timing of recognition of contract costs

Previously, contract costs of the Group are recognised by reference to the stage of completion of the contract, which is measured with reference to the progress certificates issued by the customers.

Under HKFRS 15, if the costs incurred in fulfilling a contract with a customer are not within the scope of another standard, assets shall only be recognised if the costs incurred (i) relate directly to a contract or an anticipated contract that can be specifically identified; (ii) generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and (iii) are expected to be recovered. Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contracts and costs for which the Group cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations shall be expensed as incurred under HKFRS 15.

Contract costs that related to satisfied performance obligations are expensed as incurred, the timing of recognition of contract costs would change and it would no longer be possible to defer or accrue costs to report a consistent margin percentage over the term of a contract.

As a result of this change in accounting policy, the Group has made opening adjustments at 1 January 2018 which increased retained profits by MOP7,216,000, decreased contract assets by MOP1,608,000, decreased gross amounts due to customers for contract work by MOP9,807,000 and increased tax payable by MOP983,000.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

c. *Presentation of contract assets and liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2(p)) being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 2(h)).

Previously, contract balances relating to construction contracts in progress were presented in the consolidated statement of financial position under "gross amounts due from customers for contract work" or "gross amounts due to customers for contract work" respectively.

To reflect these changes in presentation, "retention receivables" which was previously included in trade and other receivables amounting to MOP36,712,000 and "gross amounts due from customers for contract work" amounting to MOP9,284,000, are now included under contract assets at 1 January 2018, as a result of the adoption of HKFRS 15.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) MOP'000	Hypothetical amounts under HKASs 18 and 11 (B) MOP'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) MOP'000
Line items in the consolidated statement of profit or loss for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Direct costs	(299,175)	(292,908)	(6,267)
Gross profit	106,567	112,834	(6,267)
Profit from operations	79,064	85,331	(6,267)
Profit before taxation	72,978	79,245	(6,267)
Income tax	(11,377)	(12,151)	774
Profit for the year	61,601	67,094	(5,493)
Earnings per share			
Basic and diluted	MOP0.08	MOP0.09	(MOP0.01)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

d. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 (Continued)*

	Amounts reported in accordance with HKFRS 15 (A) MOP'000	Hypothetical amounts under HKASs 18 and 11 (B) MOP'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) MOP'000
Line items in the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	61,583	67,076	(5,493)
Total comprehensive income attributable to the equity shareholders of the Group	61,583	67,076	(5,493)
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Contract assets	57,219	–	57,219
Gross amounts due from customers for contract work	–	27,831	(27,831)
Trade and other receivables	413,359	453,363	(40,004)
Total current assets	506,635	517,251	(10,616)
Gross amounts due to customers for contract work	–	(13,723)	13,723
Tax payable	(27,947)	(27,597)	(350)
Total current liabilities	(272,844)	(286,217)	13,373

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 (Continued)

	Amounts reported in accordance with HKFRS 15 (A) MOP'000	Hypothetical amounts under HKASs 18 and 11 (B) MOP'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) MOP'000
Net current assets	233,791	231,034	2,757
Total assets less current liabilities	322,015	319,258	2,757
Net assets	322,015	319,258	2,757
Reserves	314,138	311,381	2,757
Total equity attributable to equity shareholders of the Group	321,966	319,209	2,757
Total equity	322,015	319,258	2,757
Line items in the reconciliation of profit before taxation to cash used in operations for year ended 31 December 2018 (note 17(b)) impacted by the adoption of HKFRS 15:			
Profit before taxation	72,978	79,245	(6,267)
Increase in contract assets	(11,862)	–	(11,862)
Increase in gross amounts due from customers for contract work	–	(18,547)	18,547
Increase in trade and other receivables	(158,513)	(162,011)	3,498
Increase in gross amounts due to customers for contract work	–	3,916	(3,916)

The significant differences arise as a result of the changes in accounting policies described above.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in the former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as fair value on initial recognition of a financial asset. The fair value is the transaction price unless fair value can be more reliably estimated using valuation technique whose variables include only data from observable markets. Cost includes attributable transaction costs.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 2(g)).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(g)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Freehold land is not depreciated	
– Furniture, fixtures and equipment	5 years
– Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful live of an asset and its residual value, if any, are reviewed annually.

(f) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, bank deposits, pledged deposits, and trade and other receivables); and

- contract assets as defined in HKFRS 15 (see note 2(h));

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls of financial assets, trade and other receivables and contract assets are discounted using the fixed effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– Lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, retention receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);or (ii) the financial asset is 2 years past due. 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 since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(p)(iii) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence exists, the impairment loss for trade and other receivables and other financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss is recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment and investments in subsidiaries may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Contract assets

A contract asset is recognised when the Group recognises revenue (see note 2(p)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(g)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(i)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(p)).

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "gross amount due from customers for contract work" (as an asset) or the "gross amount due to customers for contract work" (as a liability), as applicable, on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "trade and other receivables". These balances have been reclassified on 1 January 2018 as shown in note 14 (see note 2(c)(ii)).

(i) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(h)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(g)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(g)(i).

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(r)).

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions and contingent liabilities (Continued)

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(p) Revenue and other income

Income is classified by the Group as revenue when it arises from the construction contracts.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on real estate assets under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised over time using the output method, i.e. based on direct measurement of the value to customer of the entity's performance to date, provided that the value of contract work performed can be measured reliably. The value of contract work performed is measured according to the completion of specific detailed components as set out in the contract. Variations in contract work are recognised as contract revenue to the extent that the modification has been approved by the parties to the contracts and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Revenue and other income (Continued)

(i) Construction contracts (Continued)

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 2(o).

Revenue for construction contracts was recognised on a similar basis in the comparative period under HKAS 11.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the financial asset (see note 2(g)(i)).

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Translation of foreign currencies (Continued)

The results of foreign operations are translated into Macau Pataca at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, are translated into Macau Pataca at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties (Continued)

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in these financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Sources of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the end of each 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, are described below.

(a) Loss allowances on trade receivables, retention receivables and contract assets

For trade receivables, retention receivables and contract assets the Group applies the simplified approach to provide for ECL as prescribed by HKFRS 9, which requires the use of the lifetime ECL allowance for all trade receivables, retention receivables and contract assets. The loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the loss allowance calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of reporting period. Management reassesses the loss allowance by the end of each reporting period.

(b) Revenue recognition of construction contracts

As explained in policy note 2(p), revenue from construction contracts are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in note 14 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

In the comparative period, revenue from construction contracts was subject to such estimation uncertainty. In addition, the contract assets arising from construction contracts were included as gross amount due from customers for contract work and gross amount due to customer for contract work and were disclosed in note 15, rather than note 14.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The principal activities of the Group are the carrying out fitting-out and building construction works. Further details regarding the Group's principal activities are disclosed in note 4(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	2018 MOP'000	2017 (Note) MOP'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Revenue from fitting-out works	288,946	332,864
– Revenue from building construction works	116,796	149,525
	405,742	482,389

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2(c)(ii)).

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 4(b)(iii).

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is MOP664,072,000. This amount represents revenue expected to be recognised in the future from construction contracts entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the work is completed which is expected to occur over the next 12 to 24 months.

4 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Fitting-out works: this segment is involved in execution of fitting-out works, procurement of materials, site supervision, management of subcontractors, overall project management, interior decorative and modification works for existing buildings.

– Building construction works: this segment is involved in structural building works, procurement of materials, site supervision, management of subcontractors and overall project management.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. Assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is gross profit.

Segment assets and liabilities of the Group are not reported to the Group's chief operating decision makers regularly. As a result, reportable assets and liabilities have not been presented in these financial statements.

In addition to receiving segment information concerning segment profit, management is provided with segment information concerning revenue.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

4 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

(i) Segment results (Continued)

Year ended 31 December 2018

	Fitting-out works MOP'000	Building construction works MOP'000	Total MOP'000
Revenue from external customers and reportable segment revenue	288,946	116,796	405,742
Segment profit	81,124	25,443	106,567

Year ended 31 December 2017

	Fitting-out works (Note) MOP'000	Building construction works (Note) MOP'000	Total (Note) MOP'000
Revenue from external customers and reportable segment revenue	332,864	149,525	482,389
Segment profit	66,658	33,272	99,930

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11. See note 2(c)(ii).

4 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

(ii) Reconciliations of reportable segment profit

	2018 MOP'000	2017 (Note) MOP'000
Profit		
Reportable segment profit	106,567	99,930
Other income	4,923	34,185
Finance costs	(6,086)	(5,735)
Unallocated head office and corporate expenses	(32,426)	(25,398)
Consolidated profit before taxation	72,978	102,982

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

(iii) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the location of the operation to which they are allocated.

	Revenues from external customers		**Specified non-current assets**	
	2018 MOP'000	2017 (Note) MOP'000	2018 MOP'000	2017 MOP'000
Macau (place of domicile)	299,771	482,389	88,101	88,155
Hong Kong	97,447	–	123	–
Mainland China	8,524	–	–	–
	105,971	–	123	–
	405,742	482,389	88,224	88,155

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11. See note 2(c)(ii).

4 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

(iv) Information about major customers

Revenue from customers during the year contributing over 10% of the total revenue of the Group is as follows:

	2018 MOP'000	2017 MOP'000
Customer A (note (i))	165,566	194,850
Customer B (note (ii))	97,354	–
Customer C (note (i))	77,465	71,094
Customer D (note (iii))	N/A#	146,350

Notes:

\# The corresponding revenue did not contribute over 10% of the Group's revenue.

(i) These transactions are attributable to segment of fitting-out works in Macau.

(ii) This transaction is attributable to segment of building construction works in Hong Kong.

(iii) This transaction is attributable to segment of building construction works in Macau.

5 OTHER INCOME

	2018 MOP'000	2017 MOP'000
Compensation from an insurance agent	2,457	–
Interest income	962	295
Gain on disposal of investment property	–	33,200
Rental income	–	288
Others	1,504	402
	4,923	34,185

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2018 MOP'000	2017 (Note) MOP'000
(a)	**Finance costs**		
	Interest on bank loans and overdrafts and other borrowings	6,086	5,735
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	340	279
	Salaries, wages and other benefits	31,114	27,626
		31,454	27,905
	Add: Amount included in construction contracts in progress	–	1,685
		31,454	29,590
(c)	**Other items**		
	Depreciation	189	276
	Rentals receivable from investment property less direct outgoings of MOPNil (2017: MOP206,000)	–	(82)
	Auditors' remuneration	1,612	1,339
	Listing expenses	8,238	10,783
	Reversal of impairment losses of trade and other receivables and contracts assets (note 23(a))	(69)	–
	Operating lease charges: minimum lease payments		
	– machinery and equipment	267	219
	– properties	2,007	923
		2,274	1,142
	Add: Amount included in construction contracts in progress	–	114
		2,274	1,256

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2018 MOP'000	2017 MOP'000
Current tax – Macau Complementary Tax		
Provision for the year	7,923	13,469
Current tax – Hong Kong Profits Tax		
Provision for the year	3,454	–
Deferred tax		
Origination and reversal of temporary differences	–	126
	11,377	13,595

Notes:

(i) The Group is not subject to any income tax in the Cayman Islands and British Virgin Islands pursuant to the rules and regulations in the corresponding jurisdictions.

(ii) The provision for Macau Complementary Tax for 2018 is calculated at 12% (2017: 12%) of the estimated assessable profits exceeding MOP600,000 (2017: MOP600,000) for the year ended 31 December 2018.

(iii) In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland revenue (Amendment) (No.3) Ordinance 2018 (the "Ordinance"). Under the two-tiered profits tax rate regime, the first HK$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits at 16.5%. The Ordinance is effective from the year of assessment 2018-2019. Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax regime.

(iv) The provision for Corporate Income Tax in the People's Republic of China (the "PRC") for 2018 is calculated at 25%. No provision for current taxation has been made because the entity in the PRC sustained losses for taxation purpose.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 MOP'000	2017 MOP'000
Profit before taxation	72,978	102,982
Notional tax on profit before taxation calculated at the rates applicable to profits in the countries concerned	9,549	12,358
Tax effect of non-deductible expenses	1,036	1,424
Tax effect of temporary differences and tax losses not recognised for deferred tax purposes	864	–
Tax effect of tax exemption under Macau Complementary Tax	(72)	(187)
Actual tax expense	11,377	13,595

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees MOP'000	Salaries, allowances and benefits in kind MOP'000	Discretionary bonus MOP'000	Retirement scheme contributions MOP'000	2018 Total MOP'000
Executive Directors					
Che Chan U	–	600	–	1	601
Lei Soi Kun	–	240	–	1	241
Wan Yee Sang	–	480	–	–	480
Independent Non-executive Directors					
Fan Chun Wah, Andrew	–	316	–	–	316
Eulógio dos Remédios, José António	–	115	–	–	115
Leong Iat Lun	–	115	–	–	115
Total	–	1,866	–	2	1,868

8 DIRECTORS' EMOLUMENTS (Continued)

	Directors' fees MOP'000	Salaries, allowances and benefits in kind MOP'000	Discretionary bonus MOP'000	Retirement scheme contributions MOP'000	2017 Total MOP'000
Executive Directors					
Che Chan U	–	600	–	–	600
Lei Soi Kun	–	240	–	–	240
Wan Yee Sang	–	508	–	–	508
Independent Non-executive Directors					
Fan Chun Wah, Andrew (appointed on 20 December 2017)	–	–	–	–	–
Eulógio dos Remédios, José António (appointed on 20 December 2017)	–	–	–	–	–
Leong Iat Lun (appointed on 20 December 2017)	–	–	–	–	–
Total	–	1,348	–	–	1,348

Notes:

(i) No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No director waived or agreed to waive any emoluments during the year.

(ii) The Company did not have any share option scheme for the purchase of ordinary shares in the Company during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The aggregate of the emoluments in respect of the five (2017: five) individuals with the highest emoluments are as follows:

	2018 MOP'000	2017 MOP'000
Salaries and other emoluments	3,631	3,815
Discretionary bonuses	374	1,538
Retirement benefit scheme contributions	6	2
	4,011	5,355

The emoluments of the five (2017: five) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000	4	3
HK$1,000,001 to HK$1,500,000	1	1
HK$2,000,001 to HK$2,500,000	–	1

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2018			2017		
	Before-tax amount MOP'000	Tax expense MOP'000	Net-of-tax amount MOP'000	Before-tax amount MOP'000	Tax expense MOP'000	Net-of-tax amount MOP'000
Exchange differences on translation of financial statements of an overseas subsidiary	(18)	–	(18)	–	–	–

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of MOP61,601,000 (2017: MOP86,213,000) and weighted average of 752,192,000 ordinary shares (2017: 570,000,000 shares on the assumption that the Reorganisation and the Capitalisation Issue (as defined in the Prospectus of the Company dated 28 December 2017) have been effective on 1 January 2017) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018 '000	2017 '000
Issued ordinary shares at 1 January	570,000	570,000
Effect of issuance of new shares (note 22(c)(v))	182,192	–
Weighted average number of ordinary shares at 31 December	752,192	570,000

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as the Group did not have dilutive potential ordinary shares for both years.

12 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amount

	Land held for own use MOP'000	Furniture, fixtures and equipment MOP'000	Motor vehicles MOP'000	Sub-total MOP'000	Investment property MOP'000	Total MOP'000
Cost:						
At 1 January 2017	–	264	28	292	10,300	10,592
Additions	87,555	481	15	88,051	–	88,051
Disposals	–	–	–	–	(10,300)	(10,300)
At 31 December 2017	87,555	745	43	88,343	–	88,343
At 1 January 2018	87,555	745	43	88,343	–	88,343
Additions	–	258	–	258	–	258
At 31 December 2018	87,555	1,003	43	88,601	–	88,601
Accumulated depreciation:						
At 1 January 2017	–	106	12	118	2,094	2,212
Charge for the year	–	62	8	70	206	276
Written back on disposals	–	–	–	–	(2,300)	(2,300)
At 31 December 2017	–	168	20	188	–	188
At 1 January 2018	–	168	20	188	–	188
Charge for the year	–	172	17	189	–	189
At 31 December 2018	–	340	37	377	–	377
Net book value:						
At 31 December 2018	87,555	663	6	88,224	–	88,224
At 31 December 2017	87,555	577	23	88,155	–	88,155

13 INVESTMENTS IN SUBSIDIARIES

The following list contains subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Space Construction (BVI) Ltd	The British Virgin Islands	200 shares of US$1 each	100%	100%	–	Investment holding
Space Construction & Engineering Co., Ltd.	Macau	MOP100,000	100%	–	100%	Construction and engineering
Companhia Space Grupo Limitada	Macau	MOP50,000	100%	–	100%	Inactive
Space Oriental Construction & Engineering Co., Ltd.	Macau	MOP100,000	100%	–	100%	Construction and engineering
Minsang Oriental Limited	Macau	MOP100,000	100%	–	100%	Construction and engineering
Space Construction & Engineering (Hong Kong) Co., Ltd.	Hong Kong	1 share	100%	–	100%	Construction and engineering
珠海市恒宇建筑工程有限公司	The People's Republic of China	RMB100,000	100%	–	100%	Construction and engineering
新時代智能建築工程有限公司	Macau	MOP100,000	51%	–	51%	Inactive

14 CONTRACT ASSETS

	Note	31 December 2018 MOP'000	1 January 2018 (i) MOP'000	31 December 2017 (i) MOP'000
Arising from performance under construction contracts	(ii),(iii),(iv)	57,219	45,357	–
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (note 16)		335,366	236,086	

Notes:

(i) The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of HKFRS 9, opening adjustments were made as at 1 January 2018 to recognise additional expected credit losses (ECLs) on contract assets. This has resulted in a decrease in this balance as at that date (see note 2(c)(i)).

(iii) Upon the adoption of HKFRS 15, some of the trade and other receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones or satisfactory completion of the retention period, were reclassified from "Trade and other receivables" to contract assets (see note 2(c)(ii)).

(iv) Upon the adoption of HKFRS 15, amounts previously included as "Gross amount due from customers for contract work" (note 15) were reclassified to contract assets (see note 2(c)(ii)).

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

Construction contracts

The Group's construction contracts include payment schedules which require stage payments over the construction period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. The Group also typically agrees to a one year retention period for 5-10% 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 the Group's work satisfactorily passing inspection.

The amount of contract assets that is expected to be recovered after more than one year is MOP40,017,000, all of which relates to retentions.

15 GROSS AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	31 December 2018 MOP'000	1 January 2018 MOP'000	31 December 2017 MOP'000
Gross amounts due from customers for contract work			
Contract costs incurred plus recognised profits less recognised losses	–	–	499,878
Less: Progress billings received and receivable	–	–	(490,594)
	–	–	9,284
Gross amounts due to customers for contract work			
Progress billings received and receivable	–	–	254,645
Less: Contract costs incurred plus recognised profits less recognised losses	–	–	(244,838)
	–	–	9,807

Note: Upon the adoption of HKFRS 15, gross amounts due from/to customers for contract work is included assets and disclosed in note 14 (see note 2(c)(ii)).

All gross amounts due from/to customers for contract work were expected to be recovered/settled within one year.

16 TRADE AND OTHER RECEIVABLES

	Note	31 December 2018 MOP'000	1 January 2018 MOP'000	31 December 2017 MOP'000
Trade receivables, net of allowance	(v), (vi)			
– Third parties		335,366	226,200	227,717
– A related company	(iii)	–	1,859	1,859
		335,366	228,059	229,576
Retention receivables, net of allowance	(v), (vi)			
– Third parties	(ii)	–	7,908	44,620
– A related company	(iii)	–	119	119
		–	8,027	44,739
Deposits, prepayments and other receivables	(i)	77,983	23,083	23,083
Amount due from a director	(iv)	10	–	–
		413,359	259,169	297,398

Notes:

(i) Except for an amount of MOP220,000 (2017: MOP54,000) which is expected to be recovered after one year, all of the remaining balances are expected to be recovered within one year.

(ii) Except for an amount of MOP17,015,000 which was expected to be recovered after one year, all of the remaining balances were expected to be recovered within one year as at 31 December 2017.

(iii) The related company was related to the Group as it was owned by Mr. Che Chan U, a director of the Group.

(iv) The amount due from a director was non-trade related, unsecured, interest-free and recoverable on demand.

(v) Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade debtors and bills receivable (see note 2(c)(i)).

(vi) Upon the adoption of HKFRS 15, some of the trade and other receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones or satisfactory completion of the retention period, were reclassified to "contract assets" and disclosed in note 14 (see note 2(c)(ii)).

16 TRADE AND OTHER RECEIVABLES (Continued)

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the billing date (or date of revenue recognition, if earlier) and net of loss allowance, is as follows:

	2018 MOP'000	2017 MOP'000
Within 1 month	74,856	21,149
1 to 3 months	21,212	62,746
3 to 6 months	58,445	94,500
6 to 12 months	158,986	51,181
Over 1 year but less than 2 years	21,867	–
	335,366	229,576

Trade debtors are normally due within 0 to 45 days from the date of billing. Further details on the Group's credit policy are set out in note 23(a).

Amount due from a related company is trade-related, unsecured, interest-free and due within 15 days from the date of billing.

17 CASH AND CASH EQUIVALENTS, BANK DEPOSITS AND PLEDGED DEPOSITS

(a) Cash and cash equivalents and bank deposits comprise:

	2018 MOP'000	2017 MOP'000
Deposits with banks	19	9,678
Cash at bank and on hand	13,827	7,523
Cash and cash equivalents in the consolidated statement of financial position	13,846	17,201
Bank overdrafts (note 19)	(4,867)	(24,629)
Cash and cash equivalents in the consolidated cash flow statement	8,979	(7,428)
Bank deposits with more than three months to maturity when placed	10,300	–

17 CASH AND CASH EQUIVALENTS, BANK DEPOSITS AND PLEDGED DEPOSITS (CONTINUED)

(b) Reconciliation of profit before taxation to cash used in operations:

	Note	2018 MOP'000	2017 MOP'000
Profit before taxation		72,978	102,982
Adjustments for:			
Interest income	5	(962)	(295)
Gain on disposal of investment property	5	–	(33,200)
Finance costs	6(a)	6,086	5,735
Depreciation	6(c)	189	276
Foreign exchange gain	10	(18)	–
Changes in working capital:			
Increase in contract assets		(11,862)	–
Decrease in gross amounts due from customers for contract work		–	10,647
Increase in trade and other receivables		(158,513)	(224,557)
Increase in gross amounts due to customers for contract work		–	7,989
(Decrease)/increase in trade and other payables		(88,525)	87,456
Cash used in operations		(180,627)	(42,967)

(c) Major non-cash transactions

As disclosed in note 22(b), dividends of MOP138,833,000 for the year ended 31 December 2017 were set off against "Amounts due from directors".

As disclosed in note 25(b), the Group disposed of an investment property to a director at MOP41,200,000 for the year ended 31 December 2017, of which MOP12,467,000 were set off against "Amounts due from directors".

As disclosed in note 25(b), the Group purchased a land held for own use from a director at MOP83,945,000 for the year ended 31 December 2017, of which MOP30,680,000 were set off against "Amounts due from directors".

17 CASH AND CASH EQUIVALENTS, BANK DEPOSITS AND PLEDGED DEPOSITS (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans and other borrowings	
	2018 MOP'000	2017 MOP'000
At 1 January (note 19)	166,835	129,441
Changes from financing cash flows:		
Proceeds from new bank loans and other borrowings	330,588	391,298
Repayment of bank loans and other borrowings	(356,771)	(353,904)
Interest paid	(6,086)	(5,735)
Total changes from financing cash flows	(32,269)	31,659
Other change:		
Interest expenses (note 6(a))	6,086	5,735
At 31 December (note 19)	140,652	166,835

(e) Pledged deposits

The balance represents deposits pledged to secure the banking facilities (including bank loans and overdraft and issuance of performance bonds).

18 TRADE AND OTHER PAYABLES

	2018 MOP'000	2017 MOP'000
Trade payables	66,672	140,286
Amount due to a related company (note (iii))	–	382
	66,672	140,668
Retention payables (note (ii))	23,839	29,571
Other payables and accruals	8,867	17,665
	99,378	187,904

Notes:

(i) Save as disclosed in note 18(ii) below, all trade and other payables are expected to be settled within one year.

(ii) Except for an amount of MOP2,803,000 (2017: MOP15,589,000), all of the remaining balances are expected to be settled within one year.

(iii) The related company was related to the Group as it is owned by Ms. Lei Soi Kun, a director of the Group. The balance was trade-related, unsecured, interest-free and due within 35 days from date of billing.

As of the end of the reporting period, the ageing analysis of trade payables based on the invoice date is as follows:

	2018 MOP'000	2017 MOP'000
Within 1 month	21,785	35,164
1 to 3 months	4,484	23,328
3 to 6 months	2,378	44,272
Over 6 months	38,025	37,904
	66,672	140,668

19 BANK LOANS AND OVERDRAFTS AND OTHER BORROWINGS

At 31 December 2018, the bank loans and overdrafts and other borrowings were repayable as follows:

	2018 MOP'000	2017 MOP'000
Within 1 year or on demand	145,519	191,393
After 1 year but within 2 years	–	71
	145,519	191,464

At 31 December 2018, the bank loans and overdrafts and other borrowings were secured as follows:

	2018 MOP'000	2017 MOP'000
Secured overdrafts (note 17(a))	4,867	24,629
Secured bank loans	140,545	166,692
Unsecured other borrowings	107	143
Liabilities arising from financing activities (note 17(d))	140,652	166,835
	145,519	191,464

19 BANK LOANS AND OVERDRAFTS AND OTHER BORROWINGS (CONTINUED)

At 31 December 2018, the banking facilities (including bank loans and overdrafts and performance bonds) granted to the Group were secured by:

(i) Land held by the Group with carrying amount of MOP87,555,000 (2017: MOP87,555,000);

(ii) Pledged deposits of MOP11,911,000 (2017: MOP26,726,000);

(iii) Corporate guarantees provided by the Company and certain subsidiaries;

(iv) Guarantees provided by the Industrial and Commercial Development Fund of the Government of the Macau Special Administrative Region; and

(v) Assignment of insurance proceeds over a close member of the family of a director of the Company.

Unsecured other borrowings represented the interest-free loan from the Industrial and Commercial Development Fund of the Government of the Macau Special Administrative Region. The loan is repayable half-yearly by instalments and the final instalment will be repayable in September 2019.

Notwithstanding the specified repayment schedules as stated in the facilities letters ("specific repayment terms") which allow the loans to be repaid over a period of more than one year, certain banking facilities granted to the Group include a clause that gives the banks the unconditional rights to call the bank loans at any time ("repayment on demand clause"). At 31 December 2018, bank loans of MOP89,045,000 (2017: MOP91,029,000) are subject to the repayment on demand clause, of which MOP73,158,000 (2017: MOP56,603,000) are repayable after one year based on the specific repayment terms and were classified as current liabilities in the consolidated statement of financial position.

19 BANK LOANS AND OVERDRAFTS AND OTHER BORROWINGS (CONTINUED)

However, management expects that the bank loans and overdrafts and other borrowings are to be repaid as follows based on the specific repayment terms:

	2018 MOP'000	2017 MOP'000
Bank loans, overdrafts and other borrowings due for repayment within one year or on demand:		
Overdrafts repayable on demand	4,867	24,629
Bank loans and other borrowings due for repayment within one year	67,494	110,161
	72,361	134,790
Bank loans and other borrowings due for repayment after one year (Note):		
After 1 year but within 2 years	4,042	4,114
After 2 years but within 5 years	13,586	12,126
After 5 years	55,530	40,434
	73,158	56,674
	145,519	191,464

Note: The presentation of amounts due for repayment are based on the specific repayment terms set out in the facilities letters and the effect of any repayment on demand clause is ignored.

Some of the Group's banking facilities were subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangement with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand.

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position

	31 December 2018 MOP'000	1 January 2018 MOP'000	31 December 2017 MOP'000
Provision for Macau Complementary Tax for the year	7,923	13,469	13,469
Balance of Macau Complementary Tax provision relating to prior years (Note)	16,570	3,101	2,183
	24,493	16,570	15,652
Provision for Hong Kong Profits Tax for the year	3,454	–	–
	27,947	16,570	15,652

Note: Upon the initial application of HKFRS 15 and HKFRS 9, the Group has recognised current tax liabilities arising from the earlier revenue and deferral of cost recognition (see note 2(c)(ii)) and additional expected credit loss (see note 2(c)(i)).

(b) Deferred tax assets recognised:

Movement of deferred tax assets

Deferred tax assets recognised in the consolidated statement of financial position arose from depreciation in excess of the related depreciation allowances and the movements during the year are as follows:

	2018 MOP'000	2017 MOP'000
At 1 January	–	126
Charged to profit or loss	–	(126)
At 31 December	–	–

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 2(n), the Group has not recognised deferred tax assets in respect of cumulative tax losses of MOP5,188,000 (2017: MOP Nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

The unrecognised tax losses relating to the subsidiaries in Macau and the PRC can be carried forward up to three and five years respectively from the year in which the loss originated and will expire in the following years:

	2018 MOP'000	2017 MOP'000
2021	3,438	–
2023	1,750	–
	5,188	–

(d) There were no material unrecognised deferred tax assets and liabilities, except for unrecognised deferred tax assets as disclosed in note 20(c), as at 31 December 2017 and 2018.

21 EMPLOYEE RETIREMENT BENEFITS

Eligible employees of the Group are covered by a government-mandated defined contribution plan pursuant to which a fixed amount of retirement benefit would be determined and paid by the Macau Government. Contributions are generally made by both employees and employers by paying a fixed amount on a monthly basis to the Social Security Fund Contribution managed by the Macau Government. The Group funds the entire contribution and has no further commitments beyond its monthly contributions. Contributions to the plan vest immediately.

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by an independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

21 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Employees of the subsidiary in the PRC are members of pension schemes operated by the PRC government. The Group is required to contribute, based on a certain percentage of the employees' remuneration, to these pension schemes to fund the benefits. The only obligation for the Group with respect to these pension schemes is the required contribution under the central pension scheme. Contributions to these scheme vest immediately.

22 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital MOP'000	Share premium MOP'000	Accumulated loss MOP'000	Total MOP'000
Balance at 24 April 2017 (date of incorporation)	22(c)(i)	*–	–	–	*–
Changes in equity for the period from 24 April 2017 to 31 December 2017:					
Capitalisation Issue	22(c)(iii)	5,871	(5,871)	–	–
Arising from Reorganisation	22(c)(iv)	–	33,938	–	33,938
Balance at 31 December 2017 and 1 January 2018		5,871	28,067	–	33,938
Changes in equity for 2018:					
Issuance of new shares, net of relevant expenses	22(c)(v)	1,957	217,755	–	219,712
Loss for the year		–	–	(1,833)	(1,833)
Balance at 31 December 2018		7,828	245,822	(1,833)	251,817

* The balances represent amounts less than MOP1,000.

22 CAPITAL AND RESERVES (CONTINUED)

(b) Dividends

During the year ended 31 December 2017, the Group's subsidiaries declared dividends of MOP138,833,000 to the then shareholders. No dividend (24 April 2017 (date of incorporation of the Company) to 31 December 2017: MOP Nil) was declared or paid by the Company during the year to its equity shareholders.

(c) Share capital

		2018		2017	
	Note	No. of shares	Amount MOP'000	No. of shares	Amount MOP'000
Authorised ordinary shares of HK$0.01 each:					
At 1 January 2018/24 April 2017 (date of incorporation)	(i)	2,000,000,000	20,600	38,000,000	391
Increase in authorised share capital	(ii)	–	–	1,962,000,000	20,209
At 31 December		2,000,000,000	20,600	2,000,000,000	20,600
Ordinary shares, issued and fully paid:					
At 1 January 2018/24 April 2017 (date of incorporation)	(i)	570,000,000	5,871	100	*–
Capitalisation Issue	(iii)	–	–	569,999,800	5,871
Arising from Reorganisation	(iv)	–	–	100	*–
Issuance of new shares	(v)	190,000,000	1,957	–	–
At 31 December		760,000,000	7,828	570,000,000	5,871

* The balances represent amounts less than MOP1,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

22 CAPITAL AND RESERVES (CONTINUED)

(c) Share capital (continued)

Notes:

(i) The Company was incorporated on 24 April 2017 with an authorised share capital of HK$380,000 (approximately equivalents to MOP391,000) divided into 38,000,000 shares of HK$0.01 each. On the date of incorporation, 100 shares were allotted and issued at par value.

(ii) On 20 December 2017, pursuant to the written resolutions of the shareholders of the Company, the authorised share capital of the Company was increased from 38,000,000 shares to 2,000,000,000 shares by the creation of additional 1,962,000,000 shares, ranking pari passu in all respects with the shares in issue as at the date of passing of the written resolution.

(iii) On 20 December 2017, pursuant to the written resolutions of the shareholders of the Company, the directors were authorised to capitalise an amount of HK$5,699,998 (approximately equivalents to MOP5,871,000) from the amount standing to the credit of the share premium account of the Company to pay up in full at par 569,999,800 shares for allotment and issue to the persons whose names appear on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis (the "Capitalisation Issue").

(iv) On 20 December 2017, 100 shares were allotted and issued to acquire the whole equity interest in Space Construction BVI. Share premium is recognised on the surplus arising on issue of shares of the Company in exchange for shares in subsidiaries arose as a result of the Reorganisation. The amount represents the excess of the consolidated net asset value of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof.

(v) On 16 January 2018, the Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited following the completion of its share offer of 190,000,000 shares of HK$0.01 each were issued at a price of HK$1.20. Proceeds of MOP1,957,000, representing the par value of the shares issued, were credited to the Company's share capital. The remaining proceeds of MOP232,883,000, after deducting issuing expenses of MOP15,128,000, were credited to the share premium account.

Upon the completion of the Reorganisation on 20 December 2017, the Company became the holding company of the Group.

(d) Nature and purpose of reserves

(i) Share premium

The share premium account is governed by the Companies Law of the Cayman Islands and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in paying distributions or dividends to equity shareholders.

No distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividends is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

22 CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves (continued)

(ii) Legal reserve

In accordance with Article 377 of the Commercial Code of Macau Special Administrative Region, the subsidiaries registered in Macau are required to transfer part of their profits of each accounting period of not less than 25% to legal reserve, until the amount reaches half of the respective share capital.

(iii) Other reserve

The capital reserve was created as a result of the Reorganisation to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange.

(iv) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than MOP. The reserve is dealt with in accordance with the accounting policies set out in note 2(q).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to fund its construction business and provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of gearing ratio (calculated by total debts divided by total equity; total debts include bank loans and overdrafts and other borrowings).

During 2018, the Group raised capital from IPO and gearing ratio was reduced. The Group's strategy is to maintain a relatively low gearing ratio going forward. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

22 CAPITAL AND RESERVES (CONTINUED)

(e) Capital management (continued)

The Group's gearing ratio at 31 December 2018 and 2017 was as follows:

	Note	2018 MOP'000	2017 MOP'000
Current liabilities:			
Bank loans and overdrafts and other borrowings	19	145,519	191,393
Non-current liabilities:			
Bank loans and other borrowings	19	–	71
Total debts		145,519	191,464
Total equity		322,015	33,937
Gearing ratio		0.5 times	5.6 times

Except for the fulfillment of covenants which are commonly found in lending arrangement with financial institutions as disclosed in note 19, neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

(f) Distributable reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated in accordance with the Companies Law of the Cayman Islands and the Company's memorandum and articles of association, was MOP243,989,000 (2017: MOP28,067,000).

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bank deposits is limited because the counterparties are banks for which the Group considers to have low credit risk.

The Group does not provide any other guarantees which would expose the Group to credit risk.

Trade receivables, retention receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 49% (2017: 58%) and 96% (2017: 97%) of the total trade receivables, retention receivables and contract assets was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0 to 45 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables, retention receivables and contract assets at an amount equal to lifetime ECLs, which is estimated based on ageing of the trade debtors, retention receivables and contract assets and loss rate. Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the trade receivables, retention receivables and contract assets.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

Trade receivables, retention receivables and contract assets (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables, retention receivables and contract assets as at 31 December 2018:

	Gross carrying amount MOP'000	Loss allowance MOP'000
Current (not past due)	142,523	30
Within 1 month past due	11,136	2
1 to 3 months past due	22,372	5
3 to 6 months past due	109,647	23
6 to 12 months past due	100,730	22
Over 1 year but less than 2 years past due	7,231	972
Over 2 years past due	1,122	1,122
	394,761	2,176

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(g) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of MOP522,000 was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2017 MOP'000
Neither past due nor impaired	48,349
Less than 1 month past due	34,025
1 to 3 months past due	70,263
3 to 6 months past due	67,862
6 to 12 months past due	9,077
	181,227
	229,576

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

Comparative information under HKAS 39 (continued)

Movement in the loss allowance account in respect of trade receivables, retention receivables and contract assets during the year is as follows:

	2018 MOP'000	2017 MOP'000
Balance at 31 December 2017/2016 under HKAS 39	522	522
Impact on initial application of HKFRS 9 (note 2(c)(i))	1,723	–
Adjusted balance at 1 January 2018/2017	2,245	522
Reversal of impairment losses recognised during the year	(69)	–
Balance at 31 December 2018/2017	2,176	522

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed funding lines from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

For bank loans subject to repayment on demand clause which can be exercised at the bank's sole discretion, the maturity analysis shows the cash outflow based on expected repayment dates with reference to the schedule of repayments set out in the banking facilities letter and, separately, the impact to the timing of the cash outflow if the lenders were to invoke unconditional rights to call the loans with immediate effect.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

	At 31 December 2018					
	Carrying amount MOP'000	Total contractual undiscounted cash flow MOP'000	Within 1 year or on demand MOP'000	More than 1 year but less than 2 years MOP'000	More than 2 years but less than 5 years MOP'000	More than 5 years MOP'000
Trade and other payables	99,378	99,378	96,575	2,803	–	–
Bank loans and overdrafts and other borrowings	145,519	160,346	97,103	5,645	17,613	39,985
	244,897	259,724	193,678	8,448	17,613	39,985
Adjustments to present cash flows on bank loans based on lender's right to demand repayment		(14,827)	48,416	(5,645)	(17,613)	(39,985)
		244,897	242,094	2,803	–	–

	At 31 December 2017					
	Carrying amount MOP'000	Total contractual undiscounted cash flow MOP'000	Within 1 year or on demand MOP'000	More than 1 year but less than 2 years MOP'000	More than 2 years but less than 5 years MOP'000	More than 5 years MOP'000
Trade and other payables	187,904	187,904	172,315	15,589	–	–
Bank loans and overdrafts and other borrowings	191,464	207,392	138,302	5,845	16,550	46,695
	379,368	395,296	310,617	21,434	16,550	46,695
Adjustments to present cash flows on bank loans based on lender's right to demand repayment		(14,439)	54,580	(5,774)	(16,550)	(46,695)
		380,857	365,197	15,660	–	–

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

Individual subsidiaries within the Group are responsible for their own cash management, including the raising of loans and following up on outstanding receivables to cover the expected cash demands. The management has made an assessment and concluded that the Group will be able to meet the expected cash outflows as abovementioned, as and when they fall due, having due regard to the Group's cashflow forecasts and strong relationships with its debtors and banks.

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

The interest rates and terms of repayment of interest-bearing borrowings of the Group are disclosed in note 19.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings.

	2018		2017	
	Effective interest rate %	Amount MOP'000	Effective interest rate %	Amount MOP'000
Net fixed rate borrowings:				
Other borrowings	–	107	–	143
Variable rate borrowings:				
Bank overdrafts	5.25%	4,867	4.75%-5.25%	24,629
Bank loans	3.25%-5.27%	140,545	3.25%-5.25%	166,692
		145,412		191,321
Total net borrowings		145,519		191,464
Net fixed rate borrowings as a percentage of total net borrowings		0.1%		0.1%

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and total equity by approximately MOP1,270,000 (2017: MOP1,684,000), in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The impact on the Group's profit after tax and total equity is estimated as an annualised impact on interest expense of such changes in interest rates. The analysis has been performed on the same basis as 2017.

(d) Foreign currency risk

The Group has no significant exposure to foreign currency risk as substantially all of the Group's transactions are denominated in functional currency of the operations to which the transaction relate.

(e) Fair values measurement

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values as at the end of the reporting period.

24 OPERATING LEASE COMMITMENTS

At 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 MOP'000	2017 MOP'000
Within 1 year	801	320
After 1 year but within 5 years	241	–
	1,042	320

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

25 MATERIAL RELATED PARTY TRANSACTIONS

In addition to transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Transactions with key management personnel

All members of key management personnel are the directors of the Group and their emoluments is disclosed in note 8.

(b) Transactions with related parties

	Note	2018 MOP'000	2017 (Note (iii)) MOP'000
Transactions with related parties			
Revenue received from a related company	(i)	–	2,978
Subcontracting fee paid to a related company	(ii)	1,507	382
Less: Amount included in construction contracts in progress		–	(6)
		1,507	376
Acquisition of a land from Mr. Che Chan U, a director of the Group		–	83,945
Disposal of an investment property to Mr. Che Chan U, a director of the Group		–	41,200

Notes:

(i) The related company is related to the Group as it is owned by Mr. Che Chan U, a director of the Group.

(ii) The related company is related to the Group as it is owned by Ms. Lei Soi Kun, a director of the Group.

(iii) The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11. See note 2(c)(ii).

The related party transaction in respect of revenue received from a related company constitutes a connected transaction as defined in Chapter 14A of the Listing Rules. However this transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimis threshold under Rule 14A.76(1). Other related party transactions do not fall under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

26 CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in these financial statements were as follows:

	2018 MOP'000	2017 MOP'000
Performance bonds given to customers for due and proper performance of projects undertaken by the Group's subsidiaries	15,444	23,645
Bank guarantees given to potential customers for an invitation to tender	700	2,059
	16,144	25,704

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2018 MOP'000	2017 MOP'000
Non-current asset		
Interest in subsidiaries	270,529	33,938
Current assets		
Other receivables	182	4,333
Bank deposits	10,300	–
Cash and cash equivalents	1,587	1
	12,069	4,334
Current liabilities		
Other payables	71	–
Amounts due to subsidiaries	10,110	4,334
Bank loans	20,600	–
	30,781	4,334
Net current liabilities	(18,712)	–
NET ASSETS	251,817	33,938
CAPITAL AND RESERVES		
Share capital	7,828	5,871
Reserves	243,989	28,067
TOTAL EQUITY	251,817	33,938

28 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate parent and ultimate controlling party of the Group to be Space Investment (BVI) Ltd, which is incorporated in the British Virgin Islands. This entity does not provide financial statements available for public use.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretation which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

HKFRS 16, *Leases*

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 24, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to MOP1,042,000 for properties, MOP241,000 of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of right-of-use assets and lease liabilities arising from operating leases on initial adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 could have a material impact on the Group's financial statements from 2019 onwards.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt HKFRS 16 in its 2018 consolidated financial statements.

FINANCIAL SUMMARY

For the year ended 31 December 2018
(Expressed in Macau Pataca)

The consolidated results of Space Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 and the consolidated assets and liabilities of the Group as at 31 December 2018 are those set out in the audited financial statements.

The summary of the consolidated results of the Group for each of the years ended 31 December 2014, 2015 and 2016 and of the consolidated assets and liabilities of the Group as at 31 December 2014, 2015 and 2016 has been extracted from the prospectus issued on 28 December 2017 in connection with the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited on 16 January 2018.

The summary below does not form part of the audited financial statements.

		Year ended 31 December				
	Note	**2018**	2017	2016	2015	2014
		MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
RESULTS						
Revenue	1	**405,742**	482,389	463,309	400,598	129,809
Gross profit	1	**106,567**	99,390	105,871	81,154	28,527
Profit before tax		**72,978**	102,982	82,432	63,385	19,468
Income tax expenses	1,2	**11,377**	13,595	11,741	7,811	2,399
Profit for the year		**61,601**	89,387	70,691	57,574	17,069

		As at 31 December				
		2018	2017	2016	2015	2014
		MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
ASSETS AND LIABILITIES						
Total assets	1,2	**594,859**	438,764	365,327	372,053	268,283
Total liabilities	1,2	**272,844**	404,827	281,945	307,530	245,972

Notes:

1 As a result of the adoption of HKFRS 15, *Revenue from contracts with customers*, with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at 1 January 2018. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

2 The Group adopted HKFRS 9, *Financial instruments* from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.

PARTICULARS OF PROPERTIES HELD BY THE GROUP

For the year ended 31 December 2018
(Expressed in Macau Pataca)

Particulars of the principal properties in Macau held by the Group as at 31 December 2018 are as follows:

Properties held for future development

Location	Use	Approximate gross floor area (sq.ft.)	Attributable percentage interest
A development site located at Rua Do Caetano No. 23, 25 and 27, 32, 34, Coloane, Macau	Office use	3,294	100%

The development of the above properties was at planning stage as at the date of this annual report and is expected to complete in 2021.