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MECOM POWER AND CONSTRUCTION LIMITED

澳能建設控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1183)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “Board”) of directors (the “Directors”) of MECOM Power and Construction Limited (“MECOM” or the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2020 (the “Period”), together with the comparative figures for the corresponding period in 2019 (the “Previous Period”) as follows:

FINANCIAL HIGHLIGHTS

(in Macanese Pataca (“MOP”) thousand, unless otherwise stated)

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Revenue	289,635	134,161
Gross profit	26,418	22,296
Profit for the period	13,000	4,694
Earnings per share (MOP cents)	1.09	0.39
Interim dividend (MOP cents)	1.03	—
	As at	As at
	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
Bank balances and cash (including fixed deposits)	163,810	223,709
Total equity	417,954	462,935
Current ratio	4.4 times	3.4 times
Aggregate value of contracts on hand yet to complete	1,174,411	701,448

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	MOP'000	MOP'000
		(Unaudited)	(Unaudited)
Revenue	3	289,635	134,161
Cost of services		<u>(263,217)</u>	<u>(111,865)</u>
Gross profit		26,418	22,296
Other income		2,449	3,225
Impairment losses under expected credit loss model, net of reversal		(806)	(302)
Administrative expenses		(15,858)	(19,681)
Share of profit of an associate		<u>263</u>	<u>9</u>
Profit before tax		12,466	5,547
Income tax credit/(expense)	4	<u>534</u>	<u>(853)</u>
Profit and total comprehensive income for the period		<u><u>13,000</u></u>	<u><u>4,694</u></u>
Basic and diluted earnings per share (MOP cents)	5	<u><u>1.09</u></u>	<u><u>0.39</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 <i>MOP'000</i> (Unaudited)	31 December 2019 <i>MOP'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		54,257	57,648
Prepayments for property, plant and equipment		323	—
Interest in an associate		517	254
		<u>55,097</u>	<u>57,902</u>
Current assets			
Contract assets	6	60,457	109,122
Debtors, deposits and prepayments	8	135,890	171,046
Amounts due from related companies	9	56,367	30,670
Pledged bank deposits		54,373	42,375
Fixed bank deposits		—	87,790
Bank balances and cash		163,810	135,919
		<u>470,897</u>	<u>576,922</u>
Current liabilities			
Amounts due to related companies	9	76	4,181
Creditors and accrued charges	10	62,499	136,142
Tax liabilities		15,132	29,094
Contract liabilities	7	2,472	2,472
Dividend payable		27,861	—
		<u>108,040</u>	<u>171,889</u>
Net current assets		<u>362,857</u>	<u>405,033</u>
Net assets		<u>417,954</u>	<u>462,935</u>
Capital and reserves			
Share capital		12,321	12,340
Reserves		405,633	450,595
Total equity		<u>417,954</u>	<u>462,935</u>

NOTES:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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

The Company is an investment holding company. The Company’s subsidiaries are principally engaged in provision of construction services, including construction and fitting out works, high voltage power substation construction and its system installation works, electrical and mechanical (“E&M”) engineering services works, and provision of facilities management services.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below regarding the adoption of a new accounting policy and the changes in accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the consolidated financial statements for the year ended 31 December 2019 of the Group.

Adoption of a new accounting policy

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under other income.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by IASB, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group's revenue represents the amount received and receivable for revenue arising on (1) construction and fitting out works, (2) high voltage power substation construction and its system installation works, (3) E&M engineering services works, and (4) facilities management services.

During the current interim period, the Group has diversified its construction business to include E&M engineering services works. E&M engineering services works generally involve a combination of the supply and/or installation of (i) low voltage ("LV") systems works; (ii) heating, ventilation and air-conditioning ("HVAC") systems works; and (iii) extra low voltage ("ELV") systems works, and the relevant testing and commissioning thereof as well as management and monitoring of quality and delivery of our E&M engineering services works. LV systems works include the supply and installation of cables, earthing, lighting systems, power cables, electrical wiring, switchboards, power outlets and other related electrical equipment that relates to the power supply and distribution within a building. HVAC systems works include the supply and installation of variable refrigerant volume units, ventilation and exhaust air systems for buildings, as well as the supply and installation of related pipes, ducts, air-conditioning units, ventilation fans and other related equipment. ELV systems works include the procurement and installation of telephones, closed-circuit television (used for security video surveillance purposes) and any other systems within a building that require a transmission signal.

Information reported to the executive Directors, being the chief operating decision maker ("CODM"), for the purpose of resources allocation and performance assessment, review the overall results and financial position of the Group as a whole. Accordingly, the Group has only one single operating and reportable segment and no further discrete financial information nor analysis of this single segment is presented.

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2020	2019
	<i>MOP'000</i>	<i>MOP'000</i>
	(Unaudited)	(Unaudited)
Revenue from construction contracts		
Construction and fitting out works	209,583	63,012
High voltage power substation construction and its system installation works	4,481	28,737
E&M engineering services works	<u>37,038</u>	<u>—</u>
	251,102	91,749
Provision of service income		
Facilities management services	<u>38,533</u>	<u>42,412</u>
	<u>289,635</u>	<u>134,161</u>
Timing of revenue recognition		
Over time	<u>289,635</u>	<u>134,161</u>

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

4. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2020	2019
	<i>MOP'000</i>	<i>MOP'000</i>
	(Unaudited)	(Unaudited)
Current tax: Macau Complementary Tax	1,593	853
Overprovision in prior years	<u>(2,127)</u>	<u>—</u>
	<u>(534)</u>	<u>853</u>

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

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

5. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	MOP'000	MOP'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	<u>13,000</u>	<u>4,694</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	<u>1,197,667</u>	<u>1,199,554</u>

For the six months ended 30 June 2020 and 2019, the diluted earnings per share does not assume the effect from the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for both periods.

6. CONTRACT ASSETS

	30 June	31 December
	2020	2019
	MOP'000	MOP'000
	(Unaudited)	(Audited)
Contract assets from contract with customers	61,961	111,600
Less: Allowance for credit losses	<u>(1,504)</u>	<u>(2,478)</u>
	<u>60,457</u>	<u>109,122</u>
	30 June	31 December
	2020	2019
	MOP'000	MOP'000
	(Unaudited)	(Audited)
Represented by:		
Construction and fitting out works	52,429	104,774
High voltage power substation construction and its system installation works	4,348	4,348
E&M engineering services works	<u>3,680</u>	<u>—</u>
	<u>60,457</u>	<u>109,122</u>

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
Analysed as current		
Unbilled revenue	10,540	71,179
Retention receivables	<u>49,917</u>	<u>37,943</u>
	<u>60,457</u>	<u>109,122</u>

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

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

Construction contracts

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits and typically netoffs the deposits with first payments. Unbilled revenue included in contract assets represents the Group's rights to receive consideration for works completed but not yet billed because the exercise of such rights is conditional upon customers' satisfaction on the contract works completed by the Group, customers' or external surveyors' issuance of certification on the works or the payment milestones being met. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time the Group obtains certification of the completed contract works from customers or external surveyors or meets payment milestones.

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

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

As at 30 June 2020, retention money held by customers for contract works amounted to MOP49,917,000 (31 December 2019: MOP37,943,000) of which MOP18,630,000 (31 December 2019: MOP6,890,000) represented the retention money held by related companies.

Retention money is unsecured, interest-free and recoverable at the end of the defect liability period of individual contract, ranging from 1 year to 2 years from the date of the completion of the respective projects.

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

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
Within one year	3,502	7,270
After one year	<u>46,415</u>	<u>30,673</u>
	<u>49,917</u>	<u>37,943</u>

As at 30 June 2020, included in the Group's contract assets are debtors with a carrying amount of MOP1,700,000 (31 December 2019: MOP5,272,000), which are past due but not impaired. The Group does not hold any collateral over these balances.

7. CONTRACT LIABILITIES

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
Advance from customer	<u>2,472</u>	<u>2,472</u>

Contract liabilities which are expected to be settled within the Group's normal operating cycle are classified as current.

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

Construction contracts

When the Group receives upfront payments or cash advances before construction activities commence, contract liabilities will arise at the start of the relevant contracts, until the revenue recognised on such relevant contracts exceeds the amount of the cash advances.

8. DEBTORS, DEPOSITS AND PREPAYMENTS

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
Trade receivables	110,100	141,390
Less: Allowance for credit losses	<u>(3,159)</u>	<u>(2,597)</u>
	106,941	138,793
Other debtors, deposits and prepayments		
— Deposits	1,896	1,216
— Prepayments	26,796	27,398
— Others	<u>257</u>	<u>3,639</u>
	<u>135,890</u>	<u>171,046</u>

Trade receivables

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

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
0–90 days	87,013	126,971
91–365 days	18,190	6,332
1–2 year	1,660	5,326
Over 2 years	<u>78</u>	<u>164</u>
	<u>106,941</u>	<u>138,793</u>

As at 30 June 2020, included in the Group's trade receivables balance are debtors with carrying amounts of MOP30,951,000 (31 December 2019: MOP26,367,000) which are past due as at the reporting date. Out of the past due balances, MOP10,677,000 (31 December 2019: MOP8,204,000) has been past due more than 90 days and is not considered as in default. The Group does not hold any collateral over these balances. As there had not been a significant change in credit quality, the amounts are still considered recoverable.

9. AMOUNTS WITH RELATED COMPANIES

(a) Amount due from a related company (trade receivables)

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

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
0–90 days	<u>55,474</u>	<u>27,161</u>

(b) Amount due to a related company (trade payables)

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

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
Within 90 days	<u>—</u>	<u>4,181</u>

10. CREDITORS AND ACCRUED CHARGES

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
Trade payables	13,497	34,221
Retention payables	6,919	6,149
Other creditors and accrued charges		
— Accrued staff costs	7,725	14,376
— Accrued construction costs	33,099	77,654
— Other accruals	<u>1,259</u>	<u>3,742</u>
	<u>62,499</u>	<u>136,142</u>

Trade payables

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

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
0–90 days	12,938	34,221
91–365 days	559	—
	<u>13,497</u>	<u>34,221</u>

Retention payables

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

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

	30 June 2020 MOP'000 (Unaudited)	31 December 2019 MOP'000 (Audited)
On demand or within one year	2,204	2,204
After one year	4,715	3,945
	<u>6,919</u>	<u>6,149</u>

11. DIVIDENDS

Six months ended 30 June	
2020	2019
<i>MOP'000</i>	<i>MOP'000</i>
(Unaudited)	(Unaudited)

2019 Final — HK4.5 cents (equivalent to MOP4.6 cents) (2019: 2018 Final — HK3.4 cents (equivalent to MOP3.5 cents)) per share	<u>55,443</u>	<u>41,957</u>
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The Directors have determined that an 2020 interim dividend of HK1.0 cent (equivalent to MOP1.03 cents) per share with a total of approximately HK\$11,962,000 (equivalent to approximately MOP12,321,000) shall be paid to the shareholders of the Company whose names appear in the register of members on 14 September 2020 (30 June 2019: 2019 interim dividend — Nil).

MANAGEMENT DISCUSSION & ANALYSIS

COMPANY OVERVIEW

The Group is a leading company in both the civil engineering industry and the high voltage power substation construction industry in Macau. It undertakes highly challenging and complex construction projects in four major segments, namely construction and fitting out works, high voltage power substation construction and its system installation works, E&M engineering services works and provision of facilities management services. During the Period, the Group has diversified its construction business covering E&M engineering services works.

The Group's construction and fitting out works comprise structural steelworks services, civil engineering construction services and fitting out and improvement works. Structural steelworks services generally involve the provision of customised and target-oriented steel structure erection services including structural steelworks, concreting and builder works, and the integration of these constructional methods for building highly efficient structures. Civil engineering construction services generally cover demolition, ground field investigation, site formation and foundation works, as well as substructures and superstructures, roads and drainage. Fitting out and improvement works generally involve alteration, renovation and upgrading works of various types, including preparation of shop drawings, modification, removal and installation of equipment and general improvement works.

High voltage power substation construction and its system installation works involve the provision of planning, scheduling, project management and construction services for customised high-voltage substations and complex power transmission infrastructures installed with high voltage power systems.

E&M engineering services works generally involve a combination of the supply and/or installation of (i) LV systems works; (ii) HVAC systems works; and (iii) ELV systems works, and the relevant testing and commissioning thereof as well as management and monitoring of quality and delivery of our E&M engineering services works. LV systems works include the supply and installation of cables, earthing, lighting systems, power cables, electrical wiring, switchboards, power outlets and other related electrical equipment that relates to the power supply and distribution within a building. HVAC systems works include the supply and installation of variable refrigerant volume units, ventilation and exhaust air systems for buildings, as well as the supply and installation of related pipes, ducts, air-conditioning units, ventilation fans and other related equipment. ELV systems works include the procurement and installation of telephones, closed-circuit television (used for security video surveillance purposes) and any other systems within a building that require a transmission signal.

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

BUSINESS REVIEW

During the Period, the Group's core market, Macau, has been seriously influenced by the outbreak of COVID-19, which resulted in a noticeable decrease of both the number of inbound visitors arriving at Macau and gaming revenue. According to the Macau Statistics and Census Bureau, the number of inbound visitors in the first quarter of 2020 reached 3.2 million, which represented a nearly 70% decrease as compared to the numbers recorded in the corresponding period of the previous year. According to the Macau Gaming Inspection and Coordination Bureau, Macau's gaming revenue in the first quarter of the year significantly shrank by approximately 60% year-on-year to approximately MOP30 billion. As the tourism and gaming industries experienced the hardest hit, both the public and private construction markets were crippled to a certain extent. Nevertheless, with the stringent border control measures implemented by the Macau government, which proved to be amazingly effective in containing the pandemic, construction projects in Macau had not been overwhelmingly stalled. In addition, some casino gaming operators grasped the opportunity to carry forth the construction plans so that they will be well-positioned to attract tourists with the upgraded facilities in the future of economic recovery. Hence, the construction market developed steadily during the Period.

During the Period, the Group undertook construction works in line with the needs of its customers, whereas a number of key projects proceeded smoothly. Revenue doubled to MOP290 million (Previous Period: MOP134 million), of which more than 70% was attributable to civil engineering and steel structure engineering services, the business segments which the Group is endowed with core technology, followed by repairs and maintenance engineering works and electrical and mechanical engineering works. In the early phase of the pandemic, some of the engineering personnel of the Group were unable to attend to work but the impact on the works progress was limited as the majority of the construction workers were recruited from Macau and other PRC regions with less impact from the COVID-19 pandemic.

Casino gaming operators have been the Group's major customers. Amid the backdrop of challenging operating environment, casino gaming operators were cautious in launching new projects, leading to a decline in the number of construction projects in the market. Yet, leveraging on our Group's impressive track record and well-maintained customers' relationship, the Group successfully secured more than ten projects during the Period, with awarded contract value amounted to more than MOP750 million in the first half of the year. Newly awarded projects include the podium façade works for a new hotel complex, heating ventilation and air-conditioning system and wet fire system works for a new hotel complex, together with the design, supply, installation, testing, commissioning and maintenance works of information technology systems for a new hotel complex.

Driven by the robust growth in revenue, the Group's net profit increased by 176.9% year-on-year to MOP13.0 million (Previous Period: MOP4.7 million). Gross profit reached MOP26.4 million (Previous Period: MOP22.3 million). However, due to the impact of the pandemic and other factors, the profit margins were consequently lowered. During the Period, gross margin and net profit margin were 9.1% (Previous Period: 16.6%) and 4.5% (Previous Period: 3.5%), respectively. The decline in profitability was attributable to various factors. Firstly, part of the supply chain of raw materials, accessories and equipment imported from China was interrupted during the pandemic, which led to the surge in costs.

Additionally, most of the completed projects of the Group during the Period were large-scale development projects with generally higher set-up cost in the initial stage and lower project cost in the middle and later stages. Also, as the projects progress, there are usually related variation works with higher profit margin, and hopefully, the overall profit margins can then be raised. Lastly, the Group undertook some E&M works with lower margin as the first step of tapping into the E&M sector, which is expected to have great potential growth.

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of the Group's revenue during the six months ended 30 June 2020 and 2019:

	Six months ended 30 June			
	2020		2019	
	<i>MOP'000</i>	<i>%</i>	<i>MOP'000</i>	<i>%</i>
Construction and fitting out works	209,583	72.4	63,012	47.0
High voltage power substation construction and its system installation works	4,481	1.5	28,737	21.4
E&M engineering services works	37,038	12.8	—	—
Facilities management services	38,533	13.3	42,412	31.6
Total	<u>289,635</u>	<u>100.0</u>	<u>134,161</u>	<u>100.0</u>

The Group's revenue for the Period increased by MOP155.5 million or 115.9%, which was attributable to the increase in revenue from construction and fitting out works by MOP146.6 million or 232.6%.

Growth in revenue of construction and fitting out works was mainly due to the substantial construction in progress of various large-scale structural steelworks and civil engineering construction projects which were awarded in the second half of 2019.

During the Period, the Group had diversified its construction business to include E&M engineering services works. Revenue from E&M engineering services works were contributed by the works performed for the building of the Public Prosecution Office of Macau (Phase II) that were awarded in May 2019.

Gross profit

The following table sets forth a breakdown of the Group's gross profit and gross margin during the six months ended 30 June 2020 and 2019:

	Six months ended 30 June			
	2020		2019	
	Gross profit/ (loss) MOP'000	Gross margin %	Gross profit MOP'000	Gross margin %
Construction and fitting out works	20,154	9.6	15,256	24.2
High voltage power substation construction and its system installation works	1,061	23.7	3,986	13.9
E&M engineering services works	(2,114)	(5.7)	—	—
Facilities management services	<u>7,317</u>	<u>19.0</u>	<u>3,054</u>	<u>7.2</u>
Total/overall	<u>26,418</u>	<u>9.1</u>	<u>22,296</u>	<u>16.6</u>

Our gross margin decreased from 16.6% for the Previous Period to 9.1% for the Period primarily attributable to the overall impact of the pandemic and other factors.

Due to the outbreak of COVID-19, part of the supply chain of raw materials, accessories and equipment imported from China for construction and fitting out works was interrupted during the period of pandemic, which accounted for the surge in costs. In addition, a larger portion of the revenue from construction and fitting out works during the Previous Period was from the variation works of a substructural steelworks construction project which had a higher gross profit margin mainly due to the favourable rate of variation orders.

E&M engineering services works generated gross loss for the Period due to the relatively high set up cost of new business at the initial stage.

The gross margin of facilities management services increased from 7.2% for the Previous Period to 19.0% for the Period, primarily attributable to more direct labour used for the facilities management services during the Period.

Other income

Other income decreased by MOP0.8 million or 24.1%, which was attributable to the decrease in rental income from the Group's industrial unit in Macau after the expiry of the existing tenancy in October 2019.

Impairment losses under expected credit loss (“ECL”) model, net of reversal

The Group’s impairment losses of trade receivables, trade-nature amounts due from related companies and contract assets were MOP806,000 (Previous Period: MOP302,000) for the Period. The Group applied a simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, trade-nature amounts due from related companies and contract assets. To measure the ECL, the Group has estimated the expected loss rates for the trade receivables, the trade-nature amounts due from related companies and the contract assets on the same basis.

Administrative expenses

Administrative expenses decreased by MOP3.8 million or 19.4% mainly due to additional professional fees incurred in relation to the preparation of relevant instrument works as the Group picked up its pace in bidding during the Previous Period.

Income tax expense

Income tax expense decreased by MOP1.4 million or 162.6% primarily due to reversal of over-provision of MOP2.1 million in prior years.

Profit for the Period

The Group’s profit for the Period increased by MOP8.3 million or 176.9% primarily attributable to the combined effect of the abovementioned items.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

As at 30 June 2020, the Group had net current assets of MOP362.9 million (31 December 2019: MOP405.0 million). The current ratio of the Group as at 30 June 2020 was 4.4 (31 December 2019: 3.4).

The Group continued to maintain a healthy liquidity position. As at 30 June 2020, the Group had a total cash and bank balances (including fixed bank deposits) of MOP163.8 million (31 December 2019: MOP223.7 million).

As at 30 June 2020, the Group's unutilised credit facilities was MOP276.6 million (31 December 2019: MOP312.0 million).

As at 30 June 2020, the Group had no bank borrowings (31 December 2019: Nil) and the Group's gearing ratio (calculated by dividing total debts with total equity) was zero (31 December 2019: zero).

As at 30 June 2020, the Company's share capital and equity amounted to MOP12.3 million and MOP405.6 million, respectively (31 December 2019: MOP12.3 million and MOP450.6 million, respectively).

FOREIGN EXCHANGE EXPOSURE

The Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars and MOP. As at 30 June 2020, the Group had no exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

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

The Group had no significant investments and no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Period.

Save as disclosed in the below section headed "Use of Net Proceeds from the Global Offering", the Group had no future plan for material investments or capital assets as at 30 June 2020.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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

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

The following table sets out the revised applications of the net proceeds and the actual usage up to 30 June 2020:

	Revised applications (HK\$ million)	Actual usage up to 30 June 2020 (HK\$ million)
Financing the issuance of performance bonds when undertaking new projects (<i>Note 1</i>)	112.4	53.3
Establishing storage facilities (<i>Note 2</i>)	44.3	44.3
Recruiting additional staff	45.2	45.2
Acquiring additional machinery	16.8	15.1
Financing the upfront costs for new projects (<i>Note 2</i>)	16.7	16.7
General working capital	<u>26.2</u>	<u>26.2</u>
	<u><u>261.6</u></u>	<u><u>200.8</u></u>

Notes:

1. The Group experienced delay in several new projects since 2018 due to delays in obtaining construction project approval, construction work licensing and work permits for foreign workers from the relevant regulatory and supervisory authorities in Macau. Project approval resumed normality in the second half of 2019. To the best knowledge and belief of the Directors, the unutilised amounts of the net proceeds are expected to be fully utilised during the year ending 31 December 2020 to 2021.

Up to the date of this announcement, the Group has utilised HK\$66.7 million of the total net proceeds for financing the issuance of performance bonds.

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

PLEDGE OF ASSETS

As at 30 June 2020, the Group had pledged bank deposits of MOP54.4 million (31 December 2019: MOP42.4 million), that were pledged with banks as security of credit facilities.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2020 (31 December 2019: nil).

COMMITMENTS

As at 30 June 2020, the Group did not have any significant capital commitments (31 December 2019: nil).

EMPLOYEES AND REMUNERATION POLICY

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

As a main contractor for some of the projects we undertake, we apply for work permits for our non-Macau resident workers on a project-by-project basis. As at 30 June 2020, the Group had 324 (31 December 2019: 269) employees in Hong Kong and Macau, comprising 87 Macau residents and 237 non-Macau residents (31 December 2019: 77 Macau residents and 192 non-Macau residents).

The Company has adopted a share option scheme (the "Share Option Scheme") on 23 January 2018, which was effective upon the Listing. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions that the eligible participants had or may have made to the Group. During the Period, 200,000 share options lapsed following the resignation of an independent non-executive Director and no share option was granted, exercised or cancelled by the Company under the Share Option Scheme. As at 30 June 2020, an aggregate of 1,700,000 shares were issuable for the outstanding share options granted under the Share Option Scheme.

PROSPECTS

Macau has done a remarkable job in containing the pandemic. The easing of quarantine measures between Guangdong and Macau since mid-July is likely to boost the recovery of the gaming industry and contribute to the development of the construction sector in Macau. The Guangdong and Macau governments partially relaxed the entry and exit restrictions of Guangdong and Macau by allowing holders of designated health certification to commute between the two places without being subjected to the mandatory 14 days of medical surveillance or centralised quarantine. According to estimation by securities analysts, some residents of the Guangdong province can take this opportunity to travel to Macau to participate in gambling activities. If the pandemic in the two places continues to be under control, the entry and exit restrictions between the two places are expected to be fully lifted, and the travel permits may be resumed. Revenue for gaming sector is expected to rebound in the third and fourth quarters of the year, which will subsequently contribute to the overall recovery of the economy and promote investors' sentiment in the construction market.

Moreover, there is no lack of optimistic factors enveloped in the mid to long term construction blueprint of Macau, which, hopefully, will continue to incentivise market demand for construction projects. As the validity period of casino operation concession in Macau will expire by June 2022, casino gaming operators need to pour in funds to upgrade the facilities to increase their chance for

renewal. Despite the fact that the pandemic has hit the tourism industry, casino gaming operators have been speeding up their development plans during the Period, for instance, the expansion works in the second phase of Studio City and those in a handful of its existing casinos. Such development duly implies that the pandemic has not brought about significant impact to the development of casino gaming operators. The long-term demand for construction projects remains positive. In addition, the nationwide strategic development plan has been instrumental to overall regional development, including Macau. In early April of this year, an agreement was concluded between Macau and Hengqin, pursuant to which, Macau was granted the right to use a parcel of land of 190,000 sq. m. for the construction of “Macau New Neighborhood”, whereby, a series of livelihood, medical and educational facilities were commissioned for development. As this project is considered as another large-scale development area, following the Cotai and the newly reclaimed area in Macau, our Group will actively seize the opportunity to secure new engagements for the construction projects on the Hengqin island.

The Group will also continue to explore diversified engineering opportunities, among which, E&M engineering services are favoured by the emerging opportunities brought about by the urban renewal and building upgrade initiatives at city level. Industry research indicates that the market scale of E&M engineering services has seen steady growth, from approximately MOP9.6 billion in 2014 to approximately MOP12.7 billion in 2019, with a compound annual growth rate of approximately 5.8%. Such increase is mainly attributable to the continued effort made by the major hotels in Macau in project development, which, in turn, has generated robust demand for the installation of E&M systems for buildings. Serving as an engineering partner for casino gaming operators, the Group’s development into E&M engineering projects not only helps strengthen cooperation between the two parties concerned, but also helps diversify the customer mix and revenue channels, and thus, conducive to the overall healthy development of the Group.

When the pandemic subsides, the Macau government intends to promote infrastructure development, which will bolster the competitive edge of Macau, as well as benefit the overall construction industry. The Macau government has stated earlier that, subsequent to the pandemic, it would allocate more than MOP10 billion to commence more than 110 infrastructure investment projects, with a view to promote employment and economic development. The Group has participated in quite a number of public projects previously, including the construction of substation facilities and hospitals, and looks forward to more engagements with public projects in the future.

As of 30 June 2020, the Group’s total aggregate value of contracts on hand yet to complete amounted to MOP1.17 billion (such amount does not include part of the HK\$6.5 billion construction works for which the Group and the state-owned joint venture previously obtained in Cotai), which testifies to the fact that our Company has sufficient contracts on hand. Moreover, on 25 July 2020, the Group was awarded the contract for undertaking construction works for a residential development project with contract value amounted to MOP120 million. In line with the sustainable development in Macau, it is expected that there will be an increasing number of similar residential development projects in the market, representing opportunities for the Group to further diversify its customer mix apart from casino gaming operators. The Company is convinced that the economic rebuilding initiatives subsequent to the fading of the pandemic in Macau will spur quite a number of conducive policies, which will help

construction at localities, and bring along even more business opportunities to the Group. The construction market was clouded with uncertainties since 2019 and COVID-19 became rampant during the first half of 2020. Yet, based on its market advantage and outstanding professional team that the Company is bestowed upon, the Company has continued to be awarded projects and is able to expand its operating scale. This fittingly demonstrates that the Group is readily resilient to withstand any external challenges and capable of creating great investment value and returns for shareholders in the long run.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as the basis of the Company’s corporate governance practices.

The Board is of the opinion that the Company has complied with all the code provisions in the CG Code throughout the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

The Company repurchased 1,890,000 shares with par value of HK\$0.01 each ("Shares", each a "Share") on the Stock Exchange during the Period. The total consideration (including transaction costs) of the repurchases was approximately HK\$2,454,000. All of the repurchased Shares were cancelled during the Period. Particulars of the repurchases are as follows:

Month	Number of Shares repurchased	Purchase price per Share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
January 2020	600,000	1.37	1.29	803,000
April 2020	<u>1,290,000</u>	1.36	1.23	<u>1,651,000</u>
	<u>1,890,000</u>			<u>2,454,000</u>

The Board considered that the repurchases enhanced the earnings per Share and benefited the Company and its shareholders as a whole.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of HK1.0 cent per share for the Period. Such interim dividend will be paid to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Monday, 14 September 2020. It is expected that the interim dividend will be paid on or about Tuesday, 29 September 2020.

AUDIT COMMITTEE

The Company has established the audit committee of the Company (the "Audit Committee") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The Audit Committee consists of three members, namely Ms. Chan Po Yi, Patsy (the Chairlady of the Audit Committee), Mr. Cheung Kiu Cho, Vincent and Mr. Lio Weng Tong, all being independent non-executive Directors. The Audit Committee is chaired by Ms. Chan Po Yi, Patsy who has appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

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

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee and the Company's external auditor, Deloitte Touche Tohmatsu, have reviewed the accounting principles and practices adopted by the Group and have reviewed the condensed consolidated financial statements of the Group for the six months ended 30 June 2020.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there were no other important events affecting the Group that had occurred after 30 June 2020 and up to the date of this announcement.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE COMPANY AND THE HONG KONG STOCK EXCHANGE

This announcement is published on the Company's website at www.mecommacau.com and the Stock Exchange's website at www.hkexnews.hk. The 2020 Interim Report will be despatched to the shareholders of the Company and will be made available on the above websites in due course in accordance with the Listing Rules.

APPRECIATION

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

By Order of the Board
MECOM Power and Construction Limited
Kuok Lam Sek
Chairman

Hong Kong, 28 August 2020

As at the date of this announcement, the executive Directors are Mr. Kuok Lam Sek and Mr. Sou Kun Tou, and the independent non-executive Directors are Ms. Chan Po Yi, Patsy, Mr. Cheung Kiu Cho, Vincent and Mr. Lio Weng Tong.