GME

GME Group Holdings Limited
駿傑集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8188)

2018

ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chuang Chun Ngok Boris *(Chairman)*
Mr. Chuang Wei Chu

Independent non-executive Directors

Mr. Lam Man Bun Alan
Mr. Lau Chun Fai Douglas
Ir Ng Wai Ming Patrick

AUDIT COMMITTEE

Mr. Lau Chun Fai Douglas *(Chairman)*
Mr. Lam Man Bun Alan
Ir Ng Wai Ming Patrick

REMUNERATION COMMITTEE

Mr. Lam Man Bun Alan *(Chairman)*
Mr. Chuang Chun Ngok Boris
Mr. Lau Chun Fai Douglas
Ir Ng Wai Ming Patrick

NOMINATION COMMITTEE

Ir Ng Wai Ming Patrick *(Chairman)*
Mr. Chuang Chun Ngok Boris
Mr. Lam Man Bun Alan
Mr. Lau Chun Fai Douglas

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Mr. Chuang Chun Ngok Boris

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Mr. Sze Chun Kit

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DBS Bank (Hong Kong) Limited

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STOCK CODE

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INVESTOR RELATIONS

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FINANCIAL CALENDAR

Closure of Register of Members for
Annual General Meeting
26 April 2019 to 2 May 2019 (both days inclusive)

Annual General Meeting
2 May 2019

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**") of the Company, I am pleased to present this annual report (the "**Annual Report**") and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018 (the "**Reporting Period**").

BUSINESS REVIEW

Since 2014, the Group has been focusing on the development of a complete suite of tunnel construction services, which has laid a solid foundation for the Group's growth and a strong advantage in securing contracts. The Group is constantly evaluating opportunities within the underground construction industry and seeking the chances to extend the Group's construction services into high-value profitable area in which we could develop, broaden or commence operation.

There have been challenges to meeting the abovementioned objectives for the Group during this fiscal year mainly because of a significant slowdown in infrastructure spending. Due to the delay of the funding approvals from the Legislative Council of the Hong Kong Special Administrative Region ("**Legco**") in late 2017, the tendering schedules of certain major infrastructure projects, including Tseung Kwan O-Lam Tin Tunnel and Central Kowloon Route, were delayed. As a result, the tunnel construction works for these projects was also delayed resulting in less project opportunities for the Group. At the same time, the existing major infrastructure projects in Hong Kong such as Hong Kong-Zhuhai-Macao Bridge and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link were substantially completed during the Reporting Period. As s result, the limited supply of new construction works for subcontractors in the market and increasing competition in the construction industry gradually affected the gross profit margin of the Group during the Reporting Period.

FINANCIAL PERFORMANCE

For the year ended 31 December 2018, the revenue of the Group was approximately HK$140,631,000 (2017: approximately HK$157,121,000), representing a decrease of approximately HK$16,490,000 or 10.5% from the previous year.

The decrease in the revenue was mainly attributable to the combined effects of (i) a decrease in revenue generated from public sector projects – tunnel construction services from approximately HK$125,935,000 for the year ended 31 December 2017 to approximately HK$61,075,000 for the year ended 31 December 2018; and (ii) an increase in revenue generated from public sector projects – utility construction services and others from approximately HK$31,171,000 for the year ended 31 December 2017 to approximately HK$78,896,000 for the year ended 31 December 2018. The revenue generated from private sector projects was approximately HK$660,000 for the year ended 31 December 2018 (2017: approximately HK$15,000). The decrease in revenue generated from public sector projects – tunnel construction services was mainly resulted from the substantial completion of the tunnel construction works of several major infrastructure projects in Hong Kong as mentioned above. However, the Group has carried out mitigating measures, including but not limited to, actively submitting tenders for and participating in other public non-tunnel construction projects available in the market during the year ended 31 December 2018. Therefore, the revenue generated from public non-tunnel construction services was substantially increased during the Reporting Period.

CHAIRMAN'S STATEMENT

The Group's gross profit decreased to approximately HK$13,050,000 for the year ended 31 December 2018 (2017: approximately HK$27,907,000), representing a decrease of approximately HK$14,857,000 or 53.2%. The gross profit margin was approximately 9.3% for the year ended 31 December 2018 (2017: approximately 17.8%). Such decrease was mainly attributable to (i) the decrease in revenue from tunnel construction projects which had higher gross profit margins in general as compared to other structural works projects; (ii) the increase in operating expenses incurred during the Reporting Period in order to meet additional requirements; and (iii) increasing competition in the construction market which resulted in lower profit margin for the new projects.

The Group's loss and total comprehensive expenses ("**Net Loss**") increased from approximately HK$1,662,000 for the year ended 31 December 2017 to approximately HK$9,859,000 for the year ended 31 December 2018, representing an increase of approximately HK$8,197,000. Such increase was mainly due to the decrease in gross profit during the Reporting Period as discussed above.

OUTLOOK

Going forward, the Group will continue to adhere to its strategy of growing its market share in underground construction services in Hong Kong by working with its major customers and targeting major underground construction projects. It is anticipated that the delay of certain public infrastructure projects may have an impact on the potential revenue source of the Group from the tunnel construction for the year ending 31 December 2019. In turn, the period to period performance of the Group may also be affected. The Group remains hopeful that these public infrastructure projects will come on stream in the foreseeable future. The Group is one of a select few subcontractors experienced in tunnel construction in Hong Kong and is well prepared to capitalise on the opportunities from these public infrastructure projects.

APPRECIATION

On behalf of the Board, I would like to extend my sincere appreciation to the Group's management and staff for their commitment, contribution and dedication. I would also like to express my deep gratitude to all of our business partners, clients, suppliers and the shareholders of the Company (the "**Shareholders**") for their continuous support.

Chuang Chun Ngok Boris
Chairman

Hong Kong, 25 March 2019

FINANCIAL HIGHLIGHTS

A summary of the results and the assets, liabilities and net assets of the Group for the last five financial years, as extracted from the audited financial statements of this Annual Report and the financial statements of prior years are as follows:

	For the year ended 31 December				
	2018	2017	2016	2015	2014
Results	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**140,631**	157,121	159,127	80,560	94,193
Gross profit	**13,050**	27,907	42,777	26,398	15,717
Profit/(loss) before income tax expense	**(10,800)**	(298)	22,750	18,406	8,549
Net Profit/(Net Loss)	**(9,859)**	(1,662)	17,708	15,170	6,935
Adjusted Net Profit/(Net Loss)	**(9,859)**	6,279	25,374	15,830	6,935

	As at 31 December				
	2018	2017	2016	2015	2014
Assets and Liabilities	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**88,760**	114,519	67,310	44,974	29,711
Total liabilities	**7,125**	16,723	27,354	22,726	22,633
Net assets	**81,635**	97,796	39,956	22,248	7,078

Notes:

The summary of the results of the Group for the years ended 31 December 2014 and 2015 and of the assets, liabilities and net assets of the Group as at 31 December 2014 and 2015 have been extracted from the prospectus of the Company dated 14 February 2017 (the "**Prospectus**").

The summary of the results of the Group for the year ended 31 December 2016 and the assets, liabilities and net assets of the Group as at 31 December 2016 have been extracted from the annual report of the Company in 2016 dated 27 March 2017.

The results of the Group for the years ended 31 December 2014, 2015 and 2016 had been prepared using the principles of merger accounting as if the current group structure had been in existence throughout those year, or since their respective dates of incorporation or establishment of the combining companies, whichever was shorter.

Net Profit ("**Net Profit**") represents the profit and total comprehensive income attributable to the owners of the Company in the respective years.

Adjusted Net Profit/(Net Loss) represents the Net Profit/(Net Loss) excluding the listing expenses of approximately HK$6,338,000 for the year ended 31 December 2017 (2016: approximately HK$7,666,000; 2015: approximately HK$660,000; and 2014: nil) and other expenses in relation to the listing and resumption of trading in the shares of the Company (the "**Shares**") of approximately HK$1,603,000 for the year ended 31 December 2017 (2016: nil; 2015: nil; and 2014: nil). No such expenses were incurred during the Reporting Period.

The assets, liabilities and net assets of the Group as at 31 December 2014, 2015 and 2016 have been prepared to present the assets, liabilities and net assets of the companies now comprising the Group at that date, as if the current group structure had been in existence as at that date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an established subcontractor engaged in civil engineering works operating solely in Hong Kong. The Group is principally engaged in the provision of underground construction services and mainly serves private main contractors in public sector infrastructure projects. Public sector projects refer to the projects in which the main contractors are employed by the Government of the Hong Kong Special Administrative Region (the "**Hong Kong Government**"), its statutory bodies or statutory corporations. The Group has also been involved in some private sector projects, which has covered all other types of engagements.

The Group provides underground construction services, in particular, tunnel construction services (including excavation, shotcreting, shutter design and fabrication, tunnel lining services, advanced and structural works) and utility construction and others (mainly structural works). The Group also provides programme design, costing and management for underground construction services. As a result, the Group works routinely with its key clients in pre-tenders.

Since 2014, the Group has been focusing on the development of a complete suite of tunnel construction services, which has laid a solid foundation for the Group's growth and a strong advantage in securing contracts. The Group is constantly evaluating opportunities within the underground construction industry and seeking profitable areas in which it can develop, broaden or commence operation. This is in line with the Group's business strategies as mentioned in the Prospectus.

During the year ended 31 December 2018, the Group had secured eight public construction contracts (2017: 13) and seven private sector projects (2017: nil) with the total contract sum and variation orders amount of approximately HK$43,808,000 (2017: approximately HK$134,600,000). Subsequent to the Reporting Period and up to the date of this Annual Report, we had secured two public projects and two private projects with the total contract sum of approximately HK$85,589,000, which includes a public tunnel construction project. The construction works of such awarded projects in 2019 had commenced in March 2019. As at the date of this Annual Report the Group has also submitted certain number of tenders to main contractors, the results of which are still pending from the main contractors.

There have been challenges to meeting the abovementioned objectives for the Group during this fiscal year mainly because of a significant slowdown in infrastructure spending. Due to the delay of the funding approvals from the Legco in late 2017, the tendering schedules of certain major infrastructure projects, including Tseung Kwan O-Lam Tin Tunnel and Central Kowloon Route, were delayed. As a result, the tunnel construction works for these projects was also delayed resulting in less project opportunities for the Group. At the same time, the existing major infrastructure projects in Hong Kong such as Hong Kong-Zhuhai-Macao Bridge and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link were substantially completed during the Reporting Period. As a result, the limited supply of new construction works for sub-contractors in the market and increasing competition in the construction industry gradually affected the gross profit margin of the Group during the Reporting Period.

The Group's revenue was primarily generated from public sector projects for our provision of (i) tunnel construction services; and (ii) utility construction services and others for the year ended 31 December 2018. The following table sets out the breakdown of the Group's revenue by project types:

	Year ended 31 December			
	2018	**2018**	2017	2017
		% of total		% of total
	HK$'000	**revenue**	HK$'000	revenue
Private sector projects	**660**	**0.5**	15	–
Public sector projects				
– Tunnel construction services	**61,075**	**43.4**	125,935	80.2
– Utility construction services and others	**78,896**	**56.1**	31,171	19.8
Sub-total	**139,971**	**99.5**	157,106	100.0
Total	**140,631**	**100.0**	157,121	100.0

During the year ended 31 December 2018, the Group had been engaged in 19 public sector projects (2017: 17) and six private sector projects (2017: one). 10 public sector projects (2017: nine) and six private sector projects (2017: nil) were newly commenced in 2018. The estimated remaining contract value of these projects to be recognised as revenue after 31 December 2018 was approximately HK$52,683,000.

For the year ended 31 December 2018, the revenue of the Group was approximately HK$140,631,000 (2017: approximately HK$157,121,000), representing a decrease of approximately HK$16,490,000 or 10.5% from the previous year.

Please refer to the subsection headed "Financial Review" below for the analysis on the Group's revenue.

To maintain consistent quality services for all our customers, the Group has established a formal quality management system which is certified to be in compliance with the requirements of ISO 9001:2008. The Group has in-house quality assurance requirements specifying, amongst other things, specific work procedures for performing various types of works, responsibilities of personnel of different levels, and accident reporting. Compliance with these quality assurance requirements is mandatory for all workers of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is reliant on the availability of public sector civil engineering projects in Hong Kong which by their nature are procured by a limited number of main contractors. Due to the fact that the civil engineering projects are non-recurring in nature, there is no guarantee that the Group will be able to secure new business from past or existing customers on a recurring basis. Accordingly, the number and scale of projects, and the amount of revenue from the public sector projects may vary from period to period, therefore it may be difficult to forecast the volume of future businesses and the amount of revenue.

The Group's business is subject to the budgeting process on public infrastructure and construction projects of the Hong Kong Government. The budgeting process on public infrastructure and construction projects may be lengthened and the expected timetable of projects may be delayed. As a result, the availability of construction projects may decrease owing to the decrease in the available funding of public sector projects in Hong Kong. The Hong Kong Government's policy and public spending patterns on the civil engineering construction industry may also affect the availability of construction projects in Hong Kong.

The Group's historical results may not be indicative of our future performance, which may vary from period to period in response to a variety of factors beyond our control, including general economic conditions, regulations pertaining to the underground construction industry in Hong Kong and the ability to secure new business in the future. Therefore, the profit margin may also vary from project to project due to factors such as the complexity and size of the project.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK OF TUNNEL CONSTRUCTION INDUSTRY IN HONG KONG

The Group will continue to focus on growing its tunnel construction services business, as the Group expects this to be its major growth driver and long term, sustainable source of revenue.

It is expected that the demand for tunnel construction services in Hong Kong will continue to grow in the foreseeable future. The growth in tunnel construction industry will mainly be supported by several major infrastructure projects including Tseung Kwan O-Lam Tin Tunnel, Central Kowloon Route and Sha Tin Cavern Tunnel.

In respect of the contribution of the Central Kowloon Route, the Legco had approved the funding of approximately HK$42.3 billion on 20 October 2017. As at 31 December 2018, the Highways Department of the Hong Kong Government (the "**Highways Department**") has awarded four construction contracts of Central Kowloon Route to the contractors with a total value of approximately HK$15 billion, which included the construction works of the proposed tunnels in Kai Tak West and Yau Ma Tei East and West. The tender period for the Central Kowloon Route – Kai Tak East published by the Highways Department on 28 September 2018 was subsequently extended from 14 December 2018 to 11 January 2019. Subsequent to the Reporting Period and up to the date of this Annual Report, the Highways Department also invited tenders for Central Kowloon Route – Central Tunnel, the tender period of which was extended from early March to late March 2019.

Apart from transport infrastructure, the Drainage Services Department of the Hong Kong Government has released the tender notice for Sha Tin Cavern Sewage Treatment Works in the third quarter of 2018. This project will involve tunnel constructions using the drill and blast technique and is expected to be completed in November 2021.

Pursuant to the Policy Address dated 10 October 2018 published by the Hong Kong Government, the new railway projects under the "Railway Development Strategy 2014" will be progressively implemented. However, due to the public concern about the workmanship of a public railway infrastructure project in Hong Kong, the tendering process of such new railway projects is expected to be postponed.

It is anticipated that the delay of certain public infrastructure projects may have an impact on the potential revenue source of the Group from the tunnel construction for the year ending 31 December 2019. In turn, the period to period performance of the Group may also be affected. The Group remains hopeful that these public infrastructure projects will come on stream in the foreseeable future. The Group is one of a select few subcontractors experienced in tunnel construction in Hong Kong and is well prepared to capitalise on the opportunities from these public infrastructure projects.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the revenue of the Group was approximately HK$140,631,000 (2017: approximately HK$157,121,000), representing a decrease of approximately HK$16,490,000 or 10.5% from the previous year.

The decrease in the revenue was mainly attributable to the combined effects of (i) a decrease in revenue generated from public sector projects – tunnel construction services from approximately HK$125,935,000 for the year ended 31 December 2017 to approximately HK$61,075,000 for the year ended 31 December 2018; and (ii) an increase in revenue generated from public sector projects – utility construction services and others from approximately HK$31,171,000 for the year ended 31 December 2017 to approximately HK$78,896,000 for the year ended 31 December 2018. The revenue generated from private sector projects was approximately HK$660,000 for the year ended 31 December 2018 (2017: approximately HK$15,000). The decrease in revenue generated from public sector projects – tunnel construction services was mainly resulted from the substantial completion of the tunnel construction works of several major infrastructure projects in Hong Kong as mentioned above. However, the Group has carried out mitigating measures, including but not limited to, actively submitting tenders for and participating in other public non-tunnel construction projects available in the market during the year ended 31 December 2018. Therefore, the revenue generated from public non-tunnel construction services was substantially increased during the Reporting Period.

Cost of services

The Group's cost of services mainly consisted of (i) staff costs; (ii) rental of plant and machinery; (iii) construction materials and supplies; (iv) depreciation charges; (v) subcontracting charges; and (vi) other expenses.

The Group's cost of services decreased from approximately HK$129,214,000 for the year ended 31 December 2017 to approximately HK$127,581,000 for the year ended 31 December 2018, representing a decrease of approximately HK$1,633,000 or 1.3%. Such decrease was mainly due to the combined effects of (i) an increase in the construction materials and supplies to approximately HK$37,694,000 (2017: approximately HK$28,116,000); (ii) a decrease in staff costs to approximately HK$60,006,000 for the year ended 31 December 2018 (2017: approximately HK$82,381,000); and (iii) an increase in the subcontracting charges to approximately HK$17,698,000 (2017: approximately HK$2,729,000).

During the Reporting Period, the Group participated in more structural works projects, which increased the need to purchase construction materials and supplies from its customers through contra-charge arrangement and to engage subcontractors for the specialised services. In general, the purchase arrangement of construction materials and supplies and engagement of the subcontractors depend on the terms of the contracts, which may vary on a project-by-project basis.

The decrease in staff costs was in line with the decrease in the number of the workers during the Reporting Period.

Gross profit and gross profit margin

The Group's gross profit decreased to approximately HK$13,050,000 for the year ended 31 December 2018 (2017: approximately HK$27,907,000), representing a decrease of approximately HK$14,857,000 or 53.2%. The gross profit margin was approximately 9.3% for the year ended 31 December 2018 (2017: approximately 17.8%). Such decrease was mainly attributable to (i) the decrease in revenue from tunnel construction projects which had higher gross profit margins in general as compared to other structural works projects; (ii) the increase in operating expenses incurred during the Reporting Period in order to meet additional requirements; and (iii) increasing competition in the construction market which resulted in lower profit margin for the new projects.

Other income

The Group's other income was approximately HK$132,000 for the year ended 31 December 2018 (2017: approximately HK$328,000), which mainly consisted of the interest incomes of approximately HK$76,000 (2017: approximately HK$48,000) received from pledged bank deposit.

Administrative and other expenses

The Group's administrative and other expenses mainly comprised (i) staff costs and benefits; (ii) Directors' remuneration; (iii) motor vehicles expenses; (iv) rent and rates; and (v) professional fees.

The Group's administrative and other expenses decreased from approximately HK$28,439,000 for the year ended 31 December 2017 to approximately HK$23,893,000 for the year ended 31 December 2018, representing a decrease of approximately HK$4,546,000 or 16.0%. This decrease was mainly attributable to the combined effects of (i) listing expenses of approximately HK$6,338,000 and other expenses in relation to the listing and resumption of trading in the Shares of approximately HK$1,603,000 for the year ended 31 December 2017, which did not recur in the Reporting Period; and (ii) the increase in the staff costs and benefits from approximately HK$6,777,000 for the year ended 31 December 2017 to approximately HK$8,069,000 for the year ended 31 December 2018, representing an increase of approximately HK$1,292,000 or 19.1%. The increase in staff costs and benefits was mainly attributable to salary increment and an increase in the Group's administrative headcounts. The Directors' remuneration was approximately HK$3,310,000 for the year ended 31 December 2018 (2017: approximately HK$3,128,000).

Finance costs

The Group's finance costs mainly comprised (i) interest expenses on bank borrowing, secured; (ii) interest expenses on revolving loan; and (iii) finance costs of the obligations under finance leases during the Reporting Period.

The Group's finance costs decreased from approximately HK$94,000 for the year ended 31 December 2017 to approximately HK$89,000 for the year ended 31 December 2018.

Income tax

The Group generated income only in Hong Kong and was subject only to Hong Kong profits tax.

On 21 March 2018, the Legco passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime (the "**Two-tiered Profits Tax Rates Regime**"). The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the Two-tiered Profits Tax Rates Regime, the first HK$2 million of the assessable profits of the qualifying group entity will be taxed at 8.25% and the assessable profits above HK$2 million will be taxed at 16.5% (the "**Two-tiered Profits Tax Rates**"). The profits of group entities not qualifying for the Two-tiered Profits Tax Rates Regime will continue to be taxed at a flat rate of 16.5%.

Good Mind Engineering Limited ("**GMEHK**"), an indirectly wholly-owned subsidiary of the Company, has been nominated to be chargeable the Two-tiered Profits Tax Rates.

The income tax credit for the year ended 31 December 2018 mainly resulted from the recognition of deferred tax during the Reporting Period.

Net Loss

The Group's Net Loss increased from approximately HK$1,662,000 for the year ended 31 December 2017 to approximately HK$9,859,000 for the year ended 31 December 2018, representing an increase of approximately HK$8,197,000. Such increase was mainly due to the decrease in gross profit during the Reporting Period as discussed above.

Dividends

A final dividend of HK0.4 cents per Share and a special dividend of HK0.8 cents per Share for the year ended 31 December 2017 amounting to a total payout of HK$6,000,000 were approved in the annual general meeting of the Company on 3 May 2018 and paid in cash on 21 May 2018.

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

Liquidity, financial resources and funding

As at 31 December 2018, the Group's cash and cash equivalents and pledged bank deposits amounted to approximately HK$20,089,000 (2017: approximately HK$26,665,000) and approximately HK$8,097,000 (2017: approximately HK$8,000,000), respectively, which were denominated in Hong Kong dollar. Such decrease was mainly due to the cash outflow from the financing activities during the Reporting Period.

As at 31 December 2018, the Group had the following banking facilities: (i) a revolving term loan granted by a licensed bank in Hong Kong of HK$10,000,000 at the interest rate of 1.25% per annum below the Hong Kong Prime Rate, which was secured by a corporate guarantee provided by the Company and the pledged bank deposits of approximately HK$8,097,000 (2017: approximately HK$8,000,000); and (ii) account receivables factoring services granted by another licensed bank in Hong Kong with a credit limit of HK$10,000,000 at an interest rate of 2.5% per annum above the Hong Kong Interbank Offered Rate, which was secured by a corporate guarantee provided by the Company of up to HK$10,000,000.

As at 31 December 2018, the obligations under finance leases amounted to approximately HK$978,000 (2017: approximately HK$702,000), which represented the finance leases arrangement of the Group's office equipment and motor vehicles.

The Group's gearing ratio, which is calculated by total debts divided by total equity, decreased from approximately 14.0% as at 31 December 2017 to approximately 7.0% as at 31 December 2018 due to a decrease in total debts during the Reporting Period.

Capital structure

As at 31 December 2017 and 2018, the capital structure of the Company comprised issued share capital and reserves.

Commitments

As at 31 December 2018, the capital commitment and operating lease commitments of the Group was nil (2017: nil) and approximately HK$896,000 (2017: approximately HK$1,893,000), respectively.

Significant investments, material acquisitions or disposal of subsidiaries and associated companies

There was no significant investments, material acquisitions or disposal of subsidiaries and associated companies by the Company for the year ended 31 December 2018.

Future plans for material investments and capital assets

Save as disclosed in the section headed "Future plans and use of proceeds" in the Prospectus and the section headed "Directors' Report – Use of net proceeds from the IPO Placing" in this Annual Report, the Group did not have other plans for material investment or capital assets as at 31 December 2018.

Contingent liabilities

As at 31 December 2018, there were a number of labour claims lodged against the Group arising from the ordinary course of its civil engineering construction business. No specific claim amount has been specified in the applications of these claims. The Group anticipates that the outflow of resources required in settling these claims, if any, would be remote as these claims are usually covered by insurance maintained by relevant main contractors. Therefore, the ultimate liability under these claims would not have a material adverse impact on the financial position or performance of the Group and no provision for the contingent liabilities in respect of the litigations is necessary.

As at 31 December 2018, the Group has given guarantee to an insurance company in respect of surety bonds issued by such insurance company in favour of the Group's customers at an amount of approximately HK$5,647,000 (2017: approximately HK$2,049,000) in relation to two public construction contracts of the Group (2017: one) in the ordinary course of business. The surety bonds as at 31 December 2018 are expected to be released in accordance with the terms of the respective construction contracts. Save for the guarantee given on the surety bonds, the Group has no other material contingent liabilities.

Please refer to the note 29 to the consolidated financial statements for details.

Foreign currency exposure

The Group's reporting currency is Hong Kong dollar. During the years ended 31 December 2017 and 2018, the Group's transactions were denominated in Hong Kong dollar. The Group had no material exposure to foreign currency risk.

Charges on the Group's assets

As at 31 December 2018, the Group had pledged bank deposits of approximately HK$8,097,000 (2017: approximately HK$8,000,000) to secure the revolving loan mentioned above. Also, the Group had placed cash collateral of approximately HK$560,000 (2017: approximately HK$200,000) to an insurance company in Hong Kong for the provision of the surety bonds for two of the public non-tunnel construction projects (2017: one). For details of the surety bonds, please refer to the paragraph headed "Contingent liabilities" above. Saved for the foregoing, the Group did not have any charges on its assets.

Information on employees

As at 31 December 2018, the Group had 149 employees which comprises management, technical staff, administration, accounting and human resources staff and workers (2017: 299 employees) in Hong Kong.

Employee remuneration package is based on previous working experience and actual performance of each individual employee. Apart from the basic salary, discretionary bonus and allowance will be granted to employees based on their individual performance subject to the executive Directors' approval. The total staff costs (included in cost of services and administrative and other expenses) and Directors' remuneration amounted to approximately HK$71,385,000 for the year ended 31 December 2018 (2017: approximately HK$92,286,000), which was due to the combined effects of (i) an increase in staff costs and benefits in the administrative and other expenses due to salary increment and an increase in the Group's administrative headcounts; and (ii) a decrease in staff costs in the cost of services due to a decrease in number of workers during the Reporting Period.

Depending on the nature of works and the need of the projects, the Group will provide training to our employees from time to time. The Group's customers sometimes require the employees to attend their own on-site occupational safety trainings.

Events after the Reporting Period

No event has occurred after 31 December 2018 and up to the date of this Annual Report which would have material effect on the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Comparison of business objectives with actual business progress

The following table is a comparison between the Group's business objectives as set out in the Prospectus and the Group's actual business progress up to 31 December 2018.

Business objectives	Actual business progress up to 31 December 2018
To further develop the Group's reputation as a quality provider of integrated tunnel construction services.	The Group has hired one engineer, two experienced foremen and 10 trained tunnel construction workers for its project team. Since the agenda and approval of certain public infrastructure projects from the Hong Kong Government has recently been postponed, the Directors are of the view that the subcontractors tendering period will also be postponed accordingly. Therefore, the Group will postpone the purchase of certain machinery for site operations to a later date when there is more certainty in the need of machinery after the public infrastructure projects are approved, as set out in the section headed "Future plan and use of proceeds" in the Prospectus.
To expand the Group's services into other high-value construction services, such as marine construction works – mainly for public construction projects.	The Group has received additional works and variation orders from its public sector projects, including marine construction projects. Moving forward, the Group will continue to explore other business opportunity in high-value construction and other related services.
To enhance the efficiency of the Group's operations in order to better serve its customers and improve its financial results.	The Group has utilised part of the net proceeds from the placing of new Shares on GEM of the Stock Exchange on 22 February 2017 ("**IPO Placing**") for the rental expenses of the newly leased office. The office space refurbishment work was completed in the third quarter of 2017 to accommodate the Group's business expansion. The Group replaced the computer system for the preparation of management system upgrade in the third quarter of 2017. The Group is in the process of formulating the plan for the project management system upgrade to improve the efficiency of the Group's operation. Further information technology and project management system upgrade will be conducted in early 2019 to cope with the latest business expansion.

EXECUTIVE DIRECTORS

Mr. CHUANG Chun Ngok Boris (莊峻岳), aged 43, is the chairman, an executive Director and the compliance officer of the Company. He is also a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Chuang Chun Ngok Boris's primary responsibilities include the overall management and administration of the business and daily operations of the Group. He joined the Group in May 2002 and had participated in the business of the Group since 2004.

Mr. Chuang Chun Ngok Boris has been an associate of the Chartered Institute of Arbitrators since December 2002, a member of The Chartered Institute of Building in the United Kingdom since December 2002, and a chartered building professional in Australia since November 2002. He has also become an associate of the Hong Kong Institute of Arbitrators since December 2002 and a member of The Institution of Highways and Transportation since April 2003 respectively.

Mr. Chuang Chun Ngok Boris graduated from the University of Melbourne, Australia in December 1998 with a degree of Bachelor of Planning and Design and from Monash University, Australia in September 1998 with a degree of Bachelor of General Studies. He has also completed the Postgraduate Diploma in Construction Project Management provided by the University of Greenwich in the United Kingdom in August 2005 through distance learning. Before joining the Group, Mr. Chuang Chun Ngok Boris worked at Ove Arup & Partners Hong Kong Limited, a wholly-owned subsidiary of Arup Group Limited.

Mr. Chuang Chun Ngok Boris is the son of Mr. Chuang Wei Chu.

Mr. CHUANG Wei Chu (莊偉駒), aged 71, is an executive Director of the Company. Mr. Chuang Wei Chu's primary responsibilities include the overall development, strategic planning and major business decisions of the Group. He is the founder of GMEHK in September 1994, and has over 40 years of experience in the civil engineering industry.

Mr. Chuang Wei Chu became a member of American Society of Civil Engineers in 1973 and a fellow member of American Society of Civil Engineers in 2001.

Prior to establishing the Group, Mr. Chuang Wei Chu had worked for Hsin Chong Construction Company Limited, Kwan On Building Contractors Limited and Lam Construction Company Limited.

Mr. Chuang Wei Chu is the father of Mr. Chuang Chun Ngok Boris.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAM Man Bun Alan（林文彬）, aged 66, is an independent non-executive Director of the Company. Mr. Lam is currently a practising solicitor in Hong Kong and the sole proprietor of Alan Lam, Yam & Pe. He has been practising law in Hong Kong for over 40 years. Mr. Lam was respectively admitted to practice as a solicitor of the High Court of Hong Kong in June 1979, the Supreme Court of England and Wales in May 1983, the Supreme Court of the Australian Capital Territory in April 1989 and the Supreme Court of Republic of Singapore in May 1990. He has been an accredited general mediator of the Law Society of Hong Kong since June 2011 and an accredited general mediator of Hong Kong Mediation Accreditation Association Limited from July 2015 to June 2017. Mr. Lam has also been a part-time risk management lecturer for The Law Society of Hong Kong and has delivered hundreds of lectures on different risk management courses.

Mr. Lam was not a director in other listed companies for the last three preceding years.

Mr. LAU Chun Fai Douglas（劉俊輝）, aged 46, is an independent non-executive Director of the Company. Mr. Lau has over 18 years of experience in auditing and accounting.

Mr. Lau is a certified practising accountant of the Australian Society of Certified Practising Accountants (now known as CPA Australia), a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in Australia (now known as Chartered Accountants Australia and New Zealand) and a member of the Institute of Chartered Accountants in England and Wales. Mr. Lau is also the founding member of the Institute of Accountants Exchange in Hong Kong since May 2006.

Mr. Lau has been an independent non-executive director of Chanjet Information Technology Company Limited (stock code: 1588) since September 2011 and Ausnutria Dairy Corporation Ltd (stock code: 1717) since January 2015.

Ir NG Wai Ming Patrick（吳惠明）, aged 59, is an independent non-executive Director of the Company. Ir Patrick Ng has over 30 years of experience in building, civil, environmental and geotechnical engineering projects.

Ir Patrick Ng has served on the Contractors Registration Committee Panel and Contractors Registration Committee of the Buildings Department in Hong Kong. He is currently the academic adviser of the Department of Civil Engineering of Chu Hai College of Higher Education. He was a member of the Election Committee of the National People's Congress, the PRC for the year 2012. He is currently the member of the 11th Nanning Committee of the Chinese People's Political Consultative Conference（中國人民政治協商會議廣西省南寧市第十一屆委員會）.

Ir Patrick Ng is currently a Registered Professional Engineer (Building, Civil, Environmental, Geotechnical) under the Engineers Registration Board and a Registered Geotechnical Engineer and Registered Structural Engineer under the Buildings Ordinance. He is a member and a fellow of the Hong Kong Institution of Engineers since May 1988 and February 1998 respectively, a member of the Hong Kong Institute of Construction Managers (formerly known as Hong Kong Institute of Builders) since November 2015, and is currently an Authorised Signatory on the Register of General Building Contractors and the Register of Specialist Contractors (Sub-register of Foundation Works Category, Sub-register of Demolition Works Category, Sub-register of Site Formation Works Category and Sub-register of Ground Investigation Field Works Category).

Ir Patrick Ng was not a director in other listed companies for the last three preceding years.

SENIOR MANAGEMENT

Mr. HO John Kwun Fung (何冠鋒), aged 42, is the project engineer of the Group. Mr. Ho joined the Group in March 2011 and is primarily responsible for the overall management and supervision of the projects of the Group and overseeing the progress of various projects undertaken by the Group, making recommendations to the Directors in relation to allocation of resources and purchase and/or rental of machinery necessary for its business.

Mr. Ho graduated from The University of Melbourne, Australia in April 1998 with a degree of Bachelor of Planning and Design and in March 2000 with a degree of Bachelor of Property and Construction.

COMPANY SECRETARY

Mr. SZE Chun Kit (施俊傑), aged 32, is the finance director and company secretary of the Group. Mr. Sze joined the Group in March 2016 and is primarily responsible for financial management and company secretarial affairs. Mr. Sze is a member of the Hong Kong Institute of Certified Public Accountants since March 2013.

Mr. Sze graduated from Monash University, Australia in July 2009 with a degree of Bachelor of Commerce (Accounting and Finance) and Macquarie Graduate School of Management (MGSM) at Macquarie University, Australia in November 2018 with a degree of Master of Business Administration.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board recognises the importance of good corporate governance increasing corporate transparency and accountability. Therefore, the Company aims to establish and maintain good corporate governance practices and is committed to achieving high standard of corporate governance to maximise the shareholders' interests while taking into account the interests of other stakeholders as a whole.

CORPORATE GOVERNANCE PRACTICES

The Company considers the maintenance of a high standard of corporate governance important to the continuous growth of the Group. The Company's corporate governance practices are based on the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as contained in Appendix 15 to the GEM Listing Rules. The Shares were listed on GEM of the Stock Exchange on 22 February 2017 (the "**Listing Date**"). The Company has since then adopted and complied with, where applicable, the CG Code from the Listing Date up to the date of this Annual Report to ensure that the Group's business activities and decision making processes are regulated in a proper and prudent manner.

The Company will continue to review and enhance its corporate governance practices from time to time to comply with statutory requirements and regulations.

During the year ended 31 December 2018, the Directors considered that the Company has complied with the CG Code.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors in respect of the Shares (the "**Code of Conduct**").

The Company had made specific enquiry with the Directors and all Directors confirmed that they had fully complied with the required standard of dealings set out in the Code of Conduct and there was no event of non-compliance during the year ended 31 December 2018.

BOARD OF DIRECTORS

As at the date of this Annual Report, the Board comprises two executive Directors and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors
Mr. Chuang Chun Ngok Boris *(Chairman)*
Mr. Chuang Wei Chu

Independent non-executive Directors
Mr. Lam Man Bun Alan
Mr. Lau Chun Fai Douglas
Ir Ng Wai Ming Patrick

Mr. Chuang Chun Ngok Boris is the son of Mr. Chuang Wei Chu. They are executive Directors and the Controlling Shareholders. Save as disclosed in the Prospectus and in this Annual Report, there is no financial, business, family or other material/relevant relationships among the members of the Board as of the date of this Annual Report. Biographical details of the Directors are set out in the section headed "Biographical details of Directors, senior management and Company Secretary" in this Annual Report.

RESPONSIBILITIES OF THE BOARD

The Board supervises the overall management and administration of the business of the Group and ensures that it acts in the best interests of the Shareholders while taking into account the interests of other stakeholders as a whole. The Board is primarily responsible for overall development, strategic planning, reviewing and monitoring the business performance, approving the financial statements and annual budgets, internal controls and risk management as well as supervising the management of the Group. Execution of operational matters and the powers thereof are delegated to the senior management by the Board. The Board is regularly provided with the management update report to give a balanced and understandable assessment of the performance, position, recent development and prospects of the Group.

According to code provision of C.1.2 of the CG Code, the management shall provide all members of the Board with monthly updates. During the year ended 31 December 2018 and up to the date of this Annual Report the ("**Relevant Period**"), the executive Directors have provided, and will continue to provide, to all members of the Board (including all independent non-executive Directors, where applicable) updates on any material changes to the position and prospects of the Group, which are considered to be sufficient to provide general updates of the Group's performance, position and prospects to the Board and allow them to give a balanced and understandable assessment of the same for the purposes of code provision C.1.2 of the CG Code.

The Board is of the view that the various experience and professional qualifications of both executive Directors and the independent non-executive Directors maintain a balance of skills, experience and expertise for the business of the Group.

The Company has taken out directors and officers liability insurance to cover liabilities arising from any legal action against the Directors.

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code states that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The Company currently has not appointed any chief executive.

The Board currently comprises two executive Directors and three independent non-executive Directors with diversified qualifications and experiences which ensures that the Board has a strong independence element in its compositions for decision making. The Board also considers the day-to-day management of business has been properly delegated to different individuals.

Mr. Chuang Chun Ngok Boris is the chairman of the Company, who is responsible for the overall management and administration of the business and daily operations of the Group. Mr. Chuang Wei Chu, the executive Director, is responsible for the overall development, strategic planning and major business decisions of the Group. The Board is regularly provided with the management updates to allow its members to give a balanced and understandable assessment of the performance, position, recent development and prospects of the Group. Therefore, the Board considers that there is a balance of power and authority, and that the power is not concentrated in any one individual.

The Board will continue to review the Group's corporate governance structure and consider whether the appointment of chief executive is necessary to be in line with the Group's business objectives.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are mainly responsible for advising on issues such as corporate governance, audit, remuneration and nomination of Directors and senior management. In compliance with the Rules 5.05A, 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. The Group has received from each independent non-executive Directors an annual confirmation of independence pursuant to the requirements under Rule 5.09 of the GEM Listing Rules.

BOARD COMMITTEES

The Board has established three committees, namely the audit committee (the "**Audit Committee**"), remuneration committee (the "**Remuneration Committee**") and nomination committee (the "**Nomination Committee**") on 10 February 2017, to oversee the particular aspects of the Group's affairs. Each of the three committees has sufficient resources and its specific terms of reference that are approved by the Board, relating to its responsibilities, duties, powers and functions, are posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.gmehk.com.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance at the Company's expenses. The Board committees will regularly report back to the Board on decisions or recommendations made.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for the corporate governance functions under code provision D.3.1 of the CG Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy, such responsibilities include:

(i) developing and reviewing the Group's policies and practices on corporate governance;

(ii) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(iii) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements;

(iv) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and

(v) reviewing the Group's compliance with the CG Code and relevant disclosure in the Corporate Governance Report.

During the year ended 31 December 2018, the Board has reviewed, and will continue to review the Group's corporate governance manual at least annually, and considered the corporate governance function of the Group to be effective.

AUDIT COMMITTEE

The Group has established the Audit Committee pursuant to a resolution of the Board passed on 10 February 2017 in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee include (i) making recommendations to the Board on the appointment, reappointment and removal of the external auditor; (ii) reviewing and supervising the financial statements and material advice in respect of financial reporting; (iii) overseeing internal control procedures and corporate governance of the Company; (iv) supervising internal control and risk management systems of the Group; and (v) monitoring continuing connected transactions (if any).

The Audit Committee currently consists of all three of our independent non-executive Directors, namely Mr. Lau Chun Fai Douglas, Ir Ng Wai Ming Patrick and Mr. Lam Man Bun Alan and the chairman is Mr. Lau Chun Fai Douglas, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

The following is a summary of the work during the year ended 31 December 2018:

(a) made recommendations to the Board about BDO Limited's reappointment as the auditor of the Company and discussed the corresponding audit plans, auditor's remuneration, terms of engagement and non-audit services;

(b) reviewed the audited consolidated financial statements and annual results announcement of the Group for the year ended 31 December 2017;

(c) reviewed the unaudited consolidated financial statements of the Group for the three months ended 31 March 2018, six months ended 30 June 2018 and nine months ended 30 September 2018;

(d) reviewed the first quarterly results announcement of the Group for the three months ended 31 March 2018, interim results announcement for the six months ended 30 June 2018 and third quarterly results announcement of the Group for the nine months ended 30 September 2018; and

(e) reviewed and monitored the effectiveness of the Group's the financial control, internal control and risk management functions and performed other duties under the CG Code.

During the year ended 31 December 2018, the Audit Committee held five meetings. Please refer to the subsection headed "Number of meetings and attendance records" below for the attendance details.

REMUNERATION COMMITTEE

The Group has established the Remuneration Committee pursuant to a resolution of the Directors passed on 10 February 2017 in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee include (i) reviewing and making recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; (ii) reviewing other remuneration-related matters, including benefits in-kind and other compensation payable to the Directors and senior management; (iii) making recommendations to the Board on the remuneration packages of individual executive Directors and senior management; and (iv) reviewing performance based remunerations and establishing a formal and transparent procedure for developing policy in relation to remuneration.

The Remuneration Committee currently consists of one executive Director, Mr. Chuang Chun Ngok Boris, and all three independent non-executive Directors, namely Mr. Lam Man Bun Alan, Mr. Lau Chun Fai Douglas and Ir Ng Wai Ming Patrick. It is currently chaired by Mr. Lam Man Bun Alan.

During the year ended 31 December 2018, the Remuneration Committee held one meeting to review the remuneration policy and structure and the remuneration package of the Directors and senior management of the Group. Please refer to the subsection headed "Number of meetings and attendance records" below for the attendance details.

NOMINATION COMMITTEE

The Group has established the Nomination Committee pursuant to a resolution of the Directors passed on 10 February 2017 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to (i) review the structure, size, composition and diversity of the Board on a regular basis; (ii) identify individuals suitably qualified to become Board members; (iii) assess the independence of independent non-executive Directors; (iv) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors; and (v) make recommendations to the Board regarding the candidates to fill vacancies on the Board.

The Nomination Committee currently consists of one executive Director, Mr. Chuang Chun Ngok Boris, and all three independent non-executive Directors, namely Mr. Lam Man Bun Alan, Mr. Lau Chun Fai Douglas and Ir Ng Wai Ming Patrick. It is currently chaired by Ir Ng Wai Ming Patrick.

NOMINATION POLICY

The Company recognises the benefits of a Board that possesses a balance of skills, expertise, experience and diversity of perspectives appropriate for the businesses of the Group. Then, the Company has adopted a nomination policy for making recommendations regarding the appointment of proposed candidate(s) to the Board or re-appointment of any existing member(s) of the Board.

a) Nomination procedures and process

The Nomination Committee shall review the structure, size, composition and diversity of the Board and assess whether any vacancy of the Board has been created or is expected on a regular basis. The Nomination Committee may identify potential candidate(s) to the Board by using various methods but not limited to, considering recommendations from the Board or senior management of the Company.

b) Selection criteria

All potential candidates will then be assessed by the Nomination Committee based various the selection criteria, including but not limited to the followings:

(i) reputation for integrity;

(ii) commitment in respect of sufficient time and relevant interest to the Company; and

(iii) diversity in all aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

BOARD DIVERSITY POLICY

The Company has adopted a Board diversity policy on 10 February 2017 to achieve diversity within the Board.

The Board diversity policy aimed to set out the approach to achieve diversity of the Board. The Company considers that diversity of the Board can be achieved through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

The following measurable objectives were adopted by the Board:

(i) at least one-third of the members of the Board shall be independent non–executive Directors; and

(ii) at least two of the members of the Board shall have obtained accounting or other professional qualifications.

During the year ended 31 December 2018, the Nomination Committee held one meeting to assess the structure, size, composition and diversity of the Board, the independence of independent non-executive Directors and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The Board has also achieved the measurable objectives set out in the Board diversity policy.

Please refer to the subsection headed "Number of meetings and attendance records" below for the attendance details.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors has entered into a service agreement with the Company on 10 February 2017 for an initial term of three years commencing from the Listing Date. Either party may terminate the service agreement by giving to the other not less than three months' prior notice in writing at any time during the initial term.

Each of the independent non-executive Directors has signed a letter of appointment on 10 February 2017 for a term of three years commencing from the Listing Date. The independent non-executive Directors may terminate their letter of appointment by giving a minimum of three months' notice in writing to the Company.

According to the Article 25 of the Company's articles of association (the "**Articles**"), one-third of the Directors for the time being (or, if the number of Directors is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. In the upcoming annual general meeting, one executive Director, being Mr. Chuang Wei Chu, and one independent non-executive Director, being Ir Ng Wai Ming Patrick, would retire and be subjected to re-election.

BOARD MEETINGS

Code provision A.1.1 of the CG Code states that Board meeting should be held at least four times each year at approximately quarterly intervals with active participation, either in person or through electronic means of communication by the majority of the Directors entitled to be present. The Board delegates necessary powers and authorities to the executive Directors to facilitate the efficient day to day management of the Group's business. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolutions subject to certain exceptions set out in the Articles. The company secretary of the Company ("**Company Secretary**") maintains minutes of the Board meetings for inspection by Directors. All Directors have access to the services of the Company Secretary who regularly updates the Board on corporate governance and regulatory matters. Any Director, Audit Committee members, Remuneration Committee members and Nomination Committee members may take independent professional advice at the expense of the Company should they so wish. The Board will schedule to have at least four regular meetings per year.

During the year ended 31 December 2018, seven Board meetings were held.

NUMBER OF MEETINGS AND ATTENDANCE RECORDS

The attendance of Directors at the Board meetings and the Board's committees' meetings during the year ended 31 December 2018 is set out in the table below:

	Meetings attended/Eligible to attend				
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Mr. Chuang Chun Ngok Boris	7/7	–	1/1	1/1	1/1
Mr. Chuang Wei Chu	6/7	–	–	–	1/1
Mr. Lam Man Bun Alan	7/7	3/5	1/1	1/1	1/1
Mr. Lau Chun Fai Douglas	7/7	5/5	1/1	1/1	1/1
Ir Ng Wai Ming Patrick	7/7	5/5	1/1	1/1	1/1

As stated in code provision A.1.3 of the CG Code, notice of regular Board meetings will be given to all Directors at least 14 days prior to the scheduled Board meeting. For all other Board meetings, reasonable notice will be given.

Pursuant to code provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meeting(s) of the Company. During the year ended 31 December 2018, all of the independent non-executive Directors attended the general meeting of the Company in person or through telecommunication.

Pursuant to code provision A.2.7 of the CG Code, the chairman of the Board should hold meetings with independent non-executive Directors without the presence of other Directors at least annually. The Group has followed and will continue to follow the CG Code and ensure such meetings to be held in accordance with the CG Code.

TRAINING FOR DIRECTORS AND COMPANY SECRETARY AND CONTINUING PROFESSIONAL DEVELOPMENT

According to code provision A.6.5 of the CG Code, all 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 remains informed and relevant. During the Reporting Period, each of the Directors have from time to time reviewed updates on laws, rules and regulations and attended seminars which might be relevant to their roles, duties and functions as a director of a listed company. The Directors confirmed that they have complied with code provision A.6.5 of the CG Code and provided a record of training to the Company.

Mr. Sze Chun Kit, the Company Secretary, complied with the relevant professional training under Rule 5.15 of the GEM Listing Rules for the year ended 31 December 2018.

AUDITOR'S REMUNERATION

The auditor's remuneration paid/payable to the auditor of the Company for the year ended 31 December 2018 is set out as follows:

Services rendered	**HK$**
Audit service	730,000
Non-audit services (tax service)	29,000
Total	759,000

COMPANY SECRETARY

Please refer to the section headed "Biographical details of Directors, senior management and Company Secretary" in this Annual Report for biographical details of the Company Secretary.

COMPLIANCE OFFICER

Mr. Chuang Chun Ngok Boris, the chairman and an executive Director of the Company was appointed as the compliance officer of the Company on 10 February 2017. Please refer to the section headed "Biographical details of Directors, senior management and Company Secretary" in this Annual Report for biographical details of the compliance officer of the Company.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements for the year ended 31 December 2018 which give a true and fair view of the state of affairs of the Group. In preparing the consolidated financial statements for the year ended 31 December 2018, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are fair and reasonable.

As at 31 December 2018, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon our Group's ability to continue as a going concern. Therefore, the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the Shareholders. The independent auditor's report by the external auditor, BDO Limited, about his reporting responsibility on the consolidated financial statements of the Group is set out in the independent auditor's report of this Annual Report.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the Directors' remuneration, five highest paid individual and senior management's emoluments are set out in note 11 to the consolidated financial statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT ("ESG REPORT")

The Company will issue a separate ESG Report no later than three months after the date of this Annual Report in compliance with the Appendix 20 of the GEM Listing Rules.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

An annual general meeting of the Company shall be held each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. The annual general meeting of the Company will provide a forum between the Board and the Shareholders for communication. The Board will answer questions raised by Shareholders at the annual general meeting.

There are no provisions in the Articles for members to put forward new resolutions at general meetings. However, members of the Company who wish to propose resolutions are requested to follow Article 17 of the Articles to requisition an extraordinary general meeting. According to Article 17 of the Articles, any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or 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 months after the deposit of such requisition.

The requisition must be deposited for the attention of the Board or Company Secretary via mail to the principal place of business of the Company in Hong Kong at Room 1001-2, 10/F, 148 Electric Road, Hong Kong or via E-mail (companysecretary@gmehk.com), requiring an extraordinary general meeting to be called by the Board and specifying business that the shareholder(s) of the Company wish to discuss.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The Company discloses information in compliance with the GEM Listing Rules. The Company believes that information disclosures in timely, accurate and complete manners can enhance the corporate transparency. For the purpose of effective communication, the Company also includes the latest information relating to the Group on its website at www.gmehk.com. Enquires to the Board or the Company may be sent by post to the principal place of business in Hong Kong or via E-mail (ir@gmehk.com).

Pursuant to code provision E.1.5 of the CG Code, the Company should have a policy on payment of dividends. Please refer to the section headed "Directors' Report – Adoption of Dividend Policy" in this Annual Report for details.

CONSTITUTIONAL DOCUMENTS

The Company adopted the amended and restated Memorandum of Association and Articles of Association of the Company on 10 February 2017, which took effect on the Listing Date, to comply with the GEM Listing Rules in Hong Kong.

A copy of the amended and restated Memorandum of Association and Articles of Association of the Company is posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.gmehk.com.

During the year ended 31 December 2018, there has been no change in the Company's Memorandum of Association and Articles of Association.

The procedures for proposing a person for election as a director of the Company is available on the website of the Company.

RISK MANAGEMENT AND INTERNAL CONTROLS

It is the responsibility of the Board to ensure that a sound and effective risk management and internal control system is in place for safeguarding the interests of the Shareholders. The Board has overall responsibility for the risk management and internal control system of the Group. However, such systems are designed to manage the Group's risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve business objectives of the Group, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Group has adopted certain internal control policies, which cover various operational processes including financial reporting, project progress monitoring and cost control measures. The Group has also established a set of risk management policies and measures. The Group's risk management process starts with identifying the major risks associated with its business, industry and market in the ordinary course of business. The Board and senior management are responsible for identifying and analysing the risk associated with their respective function, preparing and measuring risk mitigation plans and reporting the status of risk management.

In addition, the Group has adopted and implemented its own disclosure policy for the purpose of providing guidelines in handling confidential information and/or monitoring information disclosure pursuant to applicable laws and regulations in compliance with the GEM Listing Rules and Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**"). The disclosure policy provides the procedures and internal controls for the handling and dissemination of inside information by publication of the announcement on a timely basis for the public to access the latest information of the Group, save for information that falls within the safe harbours as stated in the relevant Ordinance. The management of the Group also monitors the implementation of the procedures for dissemination of inside information.

As at the date of this Annual Report, the Board has conducted a review of the effectiveness of the risk management and internal control system, which covered the financial, operational, compliance and risk management for the year ended 31 December 2018. The Board considered that the system of the Group to be adequate and effective for the year ended 31 December 2018. The Company did not have an internal audit function. During the year, the Group has engaged Zhonghui Anda Risk Services Limited as an independent internal control consultant to review the effectiveness of the Group's internal control system and risk management system. The internal control consultant directly reports to the Audit Committee. Going forward, the Directors will work with the internal control consultant regularly to assess and review the effectiveness of the Group's risk management and internal control system.

PROCEDURES FOR RAISING ENQUIRIES

Written enquiries may be sent to the Company or the Board through the Company Secretary whose contact details are as follows:

Address: Room 1001-2, 10/F, 148 Electric Road, Hong Kong
Fax: +852 3105 1881
E-mail: companysecretary@gmehk.com

DIRECTORS' REPORT

The Directors are pleased to present their report and the consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the provision of underground construction services. Details of the principal activities of its subsidiaries are set out in note 27 to the consolidated financial statements of this Annual Report. There were no significant changes in the nature of our Group's principal activities during the Reporting Period.

PRINCIPAL PLACE OF BUSINESS

The Company is a limited liability company incorporated in the Cayman Islands and its principal place of business in Hong Kong is Room 1001-2, 10/F, 148 Electric Road, Hong Kong.

BUSINESS REVIEW

Discussion and analysis of the business of the Group, principal risks and uncertainties, outlook of the business and the analysis of the Group's performance for the year ended 31 December 2018 can be found out in the sections headed "Chairman's statement" and "Management discussion and analysis" in this Annual Report.

ADOPTION OF DIVIDEND POLICY

The Company has adopted a dividend policy on 25 March 2019.

The Group intends to strike a balance between maintaining sufficient capital to grow the business and rewarding the Shareholders. The Board will determine or recommend the dividend distribution ratio, as appropriate, at its absolute discretion after taking into account, inter alia, the following factors: –

1. the Group's earnings and its general financial conditions;

2. the future cash requirements and availability of the Group;

3. the future prospect and general market condition; and

4. any other factors that the Board deems appropriate, subject to the Articles of Association and any applicable laws of the Cayman Islands.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the section headed "Consolidated statement of comprehensive income" in this Annual Report.

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

DIRECTORS' REPORT

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The annual general meeting of the Company will be held on Thursday, 2 May 2019 at 4:00 p.m. ("**AGM**"). The register of members of the Company will be closed from Friday, 26 April 2019 to Thursday, 2 May 2019 (the "**closure period**"), both days inclusive, for the purposes of determining the entitlements of the Shareholders to attend and vote at the forthcoming AGM. During this closure period, no transfer of the Shares will be registered. In order to qualify for attending and voting at the AGM, all transfers, accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 25 April 2019.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets, liabilities and net assets of the Group for the last five years is set out in the section headed "Financial highlights" in this Annual Report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 15 to the consolidated financial statements of this Annual Report.

SHARE CAPITAL

Details of the movements in the Company's share capital for the year ended 31 December 2018 are set out in note 24 to the consolidated financial statements of this Annual Report.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 26 to the consolidated financial statements and in the consolidated statement of changes in equity of this Annual Report, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 of the Cayman Islands, amounted to approximately HK$70,750,000.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the Reporting Period, the Company repurchased a total of 2,136,000 Shares on the Stock Exchange and these Shares were subsequently cancelled by the Company (the "**Share Repurchase**"). Details of those transactions are as follows:

Share Repurchase and cancellation of Shares during the year ended 31 December 2018:

Month of Share Repurchase	Number of Shares repurchased	Price per Share Highest	Price per Share Lowest	Total price paid (exclusive of related expenses)
		HK$	HK$	HK$
November 2018	236,000	0.118	0.100	25,760
December 2018	1,532,000	0.148	0.134	224,788
	1,768,000			250,548

Share Repurchase and cancellation of Shares on 30 January 2019:

Month of Share Repurchase	Number of Shares repurchased	Price per Share Highest	Price per Share Lowest	Total price paid (exclusive of related expenses)
		HK$	HK$	HK$
December 2018	368,000	0.142	0.140	51,856
	368,000			51,856

The Share Repurchase during the Reporting Period was effected by the Directors, pursuant to the general mandate from the Shareholders granted at the last annual general meeting of the Company held on 3 May 2018, with a view to benefit the Shareholders as a whole by enhancing the net asset value per Share and earnings per Share of the Group.

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

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company during the Relevant Period were:

Executive Directors
Mr. Chuang Chun Ngok Boris *(Chairman)*
Mr. Chuang Wei Chu

Independent non-executive Directors
Mr. Lam Man Bun Alan
Mr. Lau Chun Fai Douglas
Ir Ng Wai Ming Patrick

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Biographical details of Directors, senior management and Company Secretary" in this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service agreement with the Company on 10 February 2017 for an initial term of three years commencing from the Listing Date. Either party may terminate the service agreement by giving to the other not less than three months' prior notice in writing at any time during the initial term.

Each of the independent non-executive Directors entered into a letter of appointment with the Company on 10 February 2017 for a term of three years commencing from the Listing Date and may terminate their letter of appointment by giving a minimum of three months' notice in writing to the Company.

According to Article 25 of the Articles, one-third of the Directors for the time being (or, if the number of Directors is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Any Director appointed to fill a casual vacancy shall, subject to Article 26, hold office only until the next following general meeting of the Company and such Director shall then be eligible for re-election at the relevant general meeting by the shareholders of the Company. In the upcoming annual general meeting, one executive Director and one independent non-executive Director would retire and subject to re-election.

PERMITTED INDEMNITY PROVISION

According to Article 50 of the Articles, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the Directors since the Listing Date and such permitted indemnity provision for the benefits of the Directors is currently in force.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as those disclosed in note 30 to the consolidated financial statements of this Annual Report, there were no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with him has or had a material interest, whether direct or indirect, subsisting at any time during or at the end of the year 2018.

CONTRACT OF SIGNIFICANCE

Save as those disclosed in note 30 to the consolidated financial statements of this Annual Report, no contract of significance in relation to the Group's business (1) has been entered into between the Company, or one of its subsidiaries, and a Controlling Shareholder or any entity connected with him/her; and (2) has been entered into for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any entity connected with him/her.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS AND REMUNERATION POLICY

Details of the Directors' remuneration and five highest paid individuals of the Group are set out in note 11 to the consolidated financial statements of this Annual Report. The remuneration policy of the Company can be found in the section headed "Management discussion and analysis – Information on employees" in this Annual Report. The Remuneration Committee has reviewed overall remuneration policy and structure relating to all Directors and senior management of the Group in reference to the Group's operating results and individual performance.

MANAGEMENT CONTRACTS

During the Relevant Period, other than the service contracts of the Directors, the Company did not enter into or have any management and administrative contracts in respect of the whole or any substantial part of the principal business of the Company.

DISCLOSURES PURSUANT TO RULE 17.23 OF THE GEM LISTING RULES

In accordance with the disclosure requirements of Rule 17.23 of the GEM Listing Rules and the Company's announcement dated 22 November 2017, the following disclosures are included in respect of the Factoring Agreement, which contain covenants requiring performance obligation of the Controlling Shareholders. Pursuant to the Factoring Agreement, a termination event would arise if the Controlling Shareholders not remain as the single largest shareholder of the Company.

RELATED PARTIES TRANSACTIONS

Details of the related party transactions undertaken by the Group during the year ended 31 December 2018 are set out in note 30 to the consolidated financial statements of this Annual Report. None of the related party transactions constitutes disclosable connected transaction under the GEM Listing Rules.

COMPETING INTEREST

The Directors are not aware that any Controlling Shareholders or Directors or their close associates (as defined in the GEM Listing Rules) are interested in any business apart from the business operated by our Group which competes or is likely to compete, directly or indirectly with our Group's business during the Relevant Period.

PENSION SCHEME ARRANGEMENTS

A Mandatory Provident Fund (the "**MPF Scheme**") has been set up for employees in Hong Kong, in accordance to the Mandatory Provident Fund Ordinance. All employees in Hong Kong are required to join the MPF Scheme and the employees and its employer are each required to contribute 5% of their gross earnings with a current ceiling of HK$1,500 per month to the MPF scheme. The only obligation of the Group with respect to the MPF scheme is to make required contribution under the scheme. No forfeited contribution is available to reduce the contribution payable in the future. The contribution charged to the consolidated statement of comprehensive income represents the contribution payable to the funds by the Group.

SHARE OPTION SCHEME

The Company has not granted or issued any option or adopted any share option scheme up to 31 December 2018.

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

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Company 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) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long Position in Shares

Name of Directors	Notes	Directly beneficially owned	Through spouse	Acting in concert	Total	Percentage of Company's issued share capital
Mr. Chuang Chun Ngok Boris	(a)/(c)	103,000,000	–	172,000,000	275,000,000	55.2%
Mr. Chuang Wei Chu	(b)/(c)	103,000,000	34,500,000	137,500,000	275,000,000	55.2%

Notes

(a) Mr. Chuang Chun Ngok Boris (i) personally holds 103,000,000 Shares; and (ii) is a party to the acting in concert deed dated 21 March 2016 entered into by the Controlling Shareholders (the "**Acting in Concert Deed**") pursuant to which each of Mr. Chuang Wei Chu, Mr. Chuang Chun Ngok Boris, Ms. To Yin Ping and Ms. Chuang Yau Ka has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any Shareholders' meeting of the Company in a unanimous manner. Mr. Chuang Chun Ngok Boris is therefore deemed to be interested in the Shares held by Mr. Chuang Wei Chu, Ms. To Yin Ping and Ms. Chuang Yau Ka respectively under the SFO. Each of Mr. Chuang Chun Ngok Boris, Mr. Chuang Wei Chu, Ms. To Yin Ping and Ms. Chuang Yau Ka is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO. Mr. Chuang Chun Ngok Boris is the son of Mr. Chuang Wei Chu and Ms. To Yin Ping and the brother of Ms. Chuang Yau Ka.

(b) Mr. Chuang Wei Chu (i) personally holds 103,000,000 Shares; (ii) is the spouse of Ms. To Yin Ping, who personally holds 34,500,000 Shares and is deemed to be interested in the Shares personally interested by Ms. To Yin Ping; and (iii) is a party to the Acting in Concert Deed pursuant to which each of Mr. Chuang Wei Chu, Mr. Chuang Chun Ngok Boris, Ms. To Yin Ping and Ms. Chuang Yau Ka has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any Shareholders' meeting of the Company in a unanimous manner. Mr. Chuang Wei Chu is therefore deemed to be interested in the Shares held by Mr. Chuang Chun Ngok Boris, Ms. To Yin Ping and Ms. Chuang Yau Ka respectively under the SFO. Each of Mr. Chuang Chun Ngok Boris, Mr. Chuang Wei Chu, Ms. To Yin Ping and Ms. Chuang Yau Ka is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO. Mr. Chuang Wei Chu is the father of Mr. Chuang Chun Ngok Boris and Ms. Chuang Yau Ka.

(c) The percentage of Company's issued share capital of each of the Directors for his long position in Shares is calculated based on the total number of Shares in issue after the Share Repurchase.

As at 31 December 2018, none of the Directors and chief executives of the Company have any interests in the underlying shares in respect of physically settled, cash settled or other equity derivatives of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Saved as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES

As at 31 December 2018, so far as is known to the Directors, the following persons' interests and short positions of the share capital and underlying shares of the Company, other than a Director or chief executive of the Company, were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long Position in Shares

Name of Shareholders	Notes	Nature of interest	Total	Percentage of Company's issued share capital
Ms. To Yin Ping	(a)/(c)	Beneficial owner, interest held jointly with another person and interest of spouse	275,000,000	55.2%
Ms. Chuang Yau Ka	(b)/(c)	Beneficial owner and interest held jointly with another person	275,000,000	55.2%
Mr. Ng Kwok Lun	(c)	Beneficial owner	37,500,000	7.5%

Notes

(a) Ms. To Yin Ping (i) personally holds 34,500,000 Shares; (ii) is the spouse of Mr. Chuang Wei Chu and is deemed to be interested in the Shares which are deemed to be interested by Mr. Chuang Wei Chu under the SFO; and (iii) is a party to the Acting in Concert Deed pursuant to which each of Mr. Chuang Chun Ngok Boris, Mr. Chuang Wei Chu, Ms. To Yin Ping and Ms. Chuang Yau Ka has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any Shareholders' meeting in an unanimous manner. Ms. To Yin Ping is therefore deemed to be interested in the Shares held by Mr. Chuang Wei Chu, Mr. Chuang Chun Ngok Boris and Ms. Chuang Yau Ka respectively under the SFO. Each of Mr. Chuang Wei Chu, Mr. Chuang Chun Ngok Boris, Ms. To Yin Ping and Ms. Chuang Yau Ka deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO. Ms. To Yin Ping is the mother of Mr. Chuang Chun Ngok Boris and Ms. Chuang Yau Ka.

(b) Ms. Chuang Yau Ka (i) personally holds 34,500,000 Shares; and (ii) is a party to the Acting in Concert Deed pursuant to which each of Mr. Chuang Chun Ngok Boris, Mr. Chuang Wei Chu, Ms. To Yin Ping and Ms. Chuang Yau Ka has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any Shareholders' meeting in an unanimous manner. Ms. Chuang Yau Ka is therefore deemed to be interested in the Shares held by Mr. Chuang Wei Chu, Ms. To Yin Ping and Mr. Chuang Chun Ngok Boris respectively under the SFO. Each of Mr. Chuang Wei Chu, Mr. Chuang Chun Ngok Boris, Ms. To Yin Ping and Ms. Chuang Yau Ka is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO. Ms. Chuang Yau Ka is the daughter of Mr. Chuang Wei Chu and Ms. To Yin Ping and the sister of Mr. Chuang Chun Ngok Boris.

(c) The percentage of Company's issued share capital of each of the substantial shareholders of the Company for their long position in Shares is calculated based on the total number of Shares in issue after the Share Repurchase.

DEED OF NON-COMPETITION

The Controlling Shareholders, namely Mr. Chuang Chun Ngok Boris, Mr. Chuang Wei Chu, Ms. To Yin Ping and Ms. Chuang Yau Ka, had entered into a deed of non-competition dated 10 February 2017 in favour of the Company (for itself and as trustee for each of its subsidiaries). The Controlling Shareholders have also confirmed that none of them nor any of his/her close associates is engaged in, involved in or interested in any Group's business (other than being a director or shareholder of our Group) which, directly or indirectly, competes or may compete with our Group's business. For details of the deed of non-competition, please refer to the section headed "Relationship with our Controlling Shareholders" in the Prospectus.

The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the abovementioned deed of non-competition have been complied with by the Controlling Shareholders up to the date of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue of the Group's top five customers accounted for approximately HK$138,694,000 for the year ended 31 December 2018 (2017: approximately HK$155,648,000), representing approximately 98.6% (2017: approximately 99.1%) of the Group's total revenue. The Group's largest customer accounted for approximately HK$38,550,000 (2017: approximately HK$76,868,000) or approximately 27.4% (2017: approximately 48.9%) of total revenue for the year ended 31 December 2018.

The total purchase from the Group's top five suppliers amounted to approximately HK$20,231,000 for the year ended 31 December 2018 (2017: approximately HK$12,130,000), representing approximately 31.8% (2017: approximately 28.2%) of the Group's total purchase. The Group's largest supplier accounted for approximately HK$9,660,000 (2017: approximately HK$5,570,000) or approximately 15.2% (2017: approximately 13.0%) of total purchase for the year ended 31 December 2018.

As at the date of this Annual Report, as far as the Company is aware, none of the Directors, their close associates or any shareholder owning more than 5% of the Company's share capital had any interest in the Group's customers and suppliers as mentioned above.

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to the Company and within the best knowledge of Directors as the date of this Annual Report, the Company has maintained the public float as required under GEM Listing Rules since the Listing Date.

INTEREST OF THE COMPLIANCE ADVISER

As at the date of this Annual Report, except for (i) the participation of Altus Capital Limited ("**Altus**") as the sponsor in relation to the listing of the Company on GEM; (ii) the compliance adviser agreement entered into between the Company and Altus dated 26 April 2016; and (iii) the financial advisory mandate entered into between the Company and Altus dated 6 March 2017, neither Altus nor any of its directors, employees or associates had any interests in relation to the Group which requires to be notified to the Company pursuant to Rule 6A.32 of GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of this Annual Report.

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the Reporting Period, the Group has made charitable donations totalling HK$3,000.

USE OF NET PROCEEDS FROM THE IPO PLACING

The net proceeds received by the Company from the IPO Placing, after deducting underwriting fees and other expenses, were approximately HK$45.9 million, which has been/will be deployed as to:

(i) HK$16.9 million for machinery purchase;

(ii) HK$12.7 million for additional prospective and/or experienced employees recruitment for the projects;

(iii) HK$9.5 million for repayment of overdraft facilities from a bank;

(iv) HK$1.3 million for the Group's newly rented office rental expense;

(v) HK$0.1 million for the new office space refurbishment and decoration;

(vi) HK$1.3 million for information technology and project management systems upgrade;

(vii) HK$1.1 million for the surety bonds cash collaterals; and

(viii) HK$3.0 million for the funding of the working capital and general corporate purposes of the Group.

As at 31 December 2018, the net proceeds had been utilised as follows:

	Actual net proceeds HK$ million	**Amount utilised as at 31 December 2018** HK$ million	**Balance** HK$ million
Machinery purchase	16.9	–	16.9
Additional prospective and/or experienced employees recruitment for our projects	12.7	11.2	1.5
Repayment of overdraft facilities from a bank	9.5	9.5	–
Newly rented office rental expense	1.3	1.3	–
New office space refurbishment and decoration	0.1	0.1	–
Information technology and project management systems upgrade	1.3	0.1	1.2
Surety bonds cash collaterals	1.1	–	1.1
Working capital and general corporate purposes	3.0	3.0	–
Total	45.9	25.2	20.7

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 has been audited by BDO Limited. BDO Limited will retire and a resolution for their reappointment as auditor of the Company will be proposed at the AGM.

Since the incorporation of the Company up to the date of this Annual Report, there has been no change in the auditor of the Company.

By order of the Board
Chuang Chun Ngok Boris
Chairman and executive Director

Hong Kong, 25 March 2019

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF GME GROUP HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of GME Group Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 48 to 112, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 requirement of 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"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition for construction contracts

As described in Note 4(i)(A) to the consolidated financial statements, the Group recognised revenue when the Group satisfies performance obligation by transferring the control of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for that services.

The Group is involved in construction projects for which it applies the output method to measure the stage of completion of a contract by reference to surveys of work performed and confirmed by customers, in transferring construction services promised to a customer and recognises revenue over time in accordance with HKFRS 15 Revenue from contracts with customers. Variable considerations 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.

We identified revenue recognition as a key audit matter because the revenue recognition of construction services involved significant management judgements and estimates including (i) the determination of performance obligations; (ii) identification of product and service elements in the contracts; (iii) the allocation of the transaction price to each element with reference to its relative fair value (i.e., stand-alone selling price); and (iv) whether it is highly probable that any revenue recognised in respect of variable considerations will not reverse when the uncertainty is resolved. The uncertainty and subjectivity involved in determining the stage of completion and foreseeable losses may have a significant impact on the revenue and profit of the Group. The Group's revenue recognition policy and key source of estimation uncertainty are set out in Notes 4 and 5 to the consolidated financial statements.

How our audit addressed the Key Audit Matter:

Our principal audit procedures in relation to accounting for construction contracts included:

– Obtaining an understanding of and evaluating the key controls related to revenue recognition and partially completed construction contracts;

– Assessing the Group's revenue recognition practice to determine that they are in compliance with HKFRS 15 Revenue from contracts with customers, including the determination of performance obligations and the assessment of the Group's efforts or inputs to the construction contracts (i.e. contract cost incurred for work performed) relative to the total expected inputs to the construction contracts;

– Discussing with the Group's management about the progress of the construction projects;

– Assessing the reasonableness of contract revenue recognised and stage of completion by reference to surveys of work performed and progress certificates issued by customers and other underlying documents;

– Checking, on a sample basis, to (i) agreed contract sum to signed contract and variation orders ("VOs"); (ii) obtained construction contracts from management and reviewed for any specific or special performance obligations and conditions during the financial period;

– Checking the basis used for evaluating the reasonableness of cost incurred against our understanding of the construction services, including (i) for subcontracting costs contracted for, agreeing the budgeted costs to the underlying contracts; (ii) for estimation of costs not supported by contracts, checking that the costs are included in accordance with the related projects; and (iii) comparing the budgeted data with the actual data recorded, taking into account the stage of completion achieved;

KEY AUDIT MATTERS (CONTINUED)

– Reviewing and assessing reasonableness of financial budget prepared by management for each on-going construction contracts to assess whether expected loss on contracts was properly recognised as an expense immediately;

– Checking the basis used for estimating the budgeted revenue to underlying contracts and VOs entered into with the customers and other relevant supporting documents in respect of variable consideration in construction services;

– Re-performing the management's calculations of revenue of each performance obligation to investigate any discrepancy or cut-off variance to evaluating any overstate or understate of revenue.

Impairment of trade receivables and contract assets in respect of expected credit losses ("ECLs")

As described in Note 18 and Note 16 to the consolidated financial statements as at 31 December 2018, the carrying amount of the Group's trade receivables and contract assets amounted to approximately HK$19,454,000 (after the provision of HK$228,000) and HK$25,395,000 (after the provision of HK$75,000), respectively, which represented approximately 22% and 29% respectively of the Group's total assets.

In general, the credit terms granted by the Group to the customers ranged between 21 to 60 days (2017: 21 to 60 days). Management performed periodic assessment on the recoverability of the trade receivables and contract assets and the sufficiency of provision for impairment based on information including the Group's 3 years historical credit loss experience, the number of days past due, adjusted for forward-looking factors (i.e. forecast GDP) and specific consideration (such as group size and reputation etc.) to the debtors and the economic environment, which may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

We identified impairment of trade receivables and contract assets as key audit matter as the impairment assessment of trade receivables and contract assets under the ECLs model involved the use of significant management judgements and estimates.

How our audit addressed the Key Audit Matter:

Our procedures in relation to management's impairment assessment of the trade receivables and contract assets as at 31 December 2018:

– Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;

– Checking, on a same basis, the ageing profile of the trade receivables as at 31 December 2018 to the underlying financial records and post year-end settlements to bank receipts;

KEY AUDIT MATTERS (CONTINUED)

- Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical settlement record and correspondence with the customers;

- Inquiring of management for the status of each of the material contract assets past due as at year end and corroborating explanations from management with supporting evidence, such as supportable records from customer, understanding on-going business relationship with the customers and subsequent settlement record with the customers; and

- Assessing the appropriateness of the ECLs provisioning methodology for trade receivables and contract assets, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the ECLs.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirement 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 also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITY 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, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate Number P05443

Hong Kong, 25 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	7	**140,631**	157,121
Cost of services		**(127,581)**	(129,214)
Gross profit		**13,050**	27,907
Other income		**132**	328
Administrative and other expenses		**(23,893)**	(28,439)
Finance costs	10	**(89)**	(94)
Loss before income tax	8	**(10,800)**	(298)
Income tax	12	**941**	(1,364)
Loss and total comprehensive expenses for the year attributable to the owners of the Company		**(9,859)**	(1,662)
Loss per share			
– Basic and diluted (HK cents)	14	**(1.97)**	(0.34)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	15	**7,752**	9,150
Deferred tax assets	23	**308**	–
		8,060	9,150
Current assets			
Contract assets	16	**25,395**	–
Amounts due from customers for contract work	17	**–**	546
Trade and other receivables	18	**25,622**	68,207
Pledged bank deposits	19	**8,097**	8,000
Current tax recoverable		**1,497**	1,951
Cash and cash equivalents	19	**20,089**	26,665
		80,700	105,369
Current liabilities			
Trade and other payables	20	**6,147**	11,153
Bank borrowing, secured	21	**–**	3,946
Obligations under finance leases	22	**273**	178
		6,420	15,277
Net current assets		**74,280**	90,092
Total assets less current liabilities		**82,340**	99,242
Non-current liabilities			
Obligations under finance leases	22	**705**	524
Deferred tax liabilities	23	**–**	922
		705	1,446
NET ASSETS		**81,635**	97,796

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	**4,982**	5,000
Reserves	26	**76,653**	92,796
TOTAL EQUITY		**81,635**	97,796

On behalf of the Board of Directors

Chuang Chun Ngok Boris
Director

Chuang Wei Chu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to the owners of the Company						
	Share capital HK$'000	Share premium (Note 26(a)) HK$'000	Share repurchase reserve (Note 26(b)) HK$'000	Capital reserve (Note 26(c)) HK$'000	Other reserve (Note 26(d)) HK$'000	Retained earnings (Note26(e)) HK$'000	Total HK$'000
As at 1 January 2017	–*	37,904	–	90	(36,104)	38,066	39,956
Loss and total comprehensive expenses for the year	–	–	–	–	–	(1,662)	(1,662)
Capitalisation issue of shares (Note 24(b))	3,750	(3,750)	–	–	–	–	–
Issue of shares under placing (Note 24(c))	1,250	66,250	–	–	–	–	67,500
Share issuance expenses	–	(7,998)	–	–	–	–	(7,998)
As at 31 December 2017	5,000	92,406	–	90	(36,104)	36,404	97,796
Loss and total comprehensive expenses for the year	–	–	–	–	–	(9,859)	(9,859)
Final and special dividend paid (Note 13)	–	–	–	–	–	(6,000)	(6,000)
Share repurchased and cancelled (Note 24(d))	(18)	(233)	–	–	–	–	(251)
Share repurchased and yet to be cancelled (Note 24(e))	–	–	(51)	–	–	–	(51)
As at 31 December 2018	**4,982**	**92,173**	**(51)**	**90**	**(36,104)**	**20,545**	**81,635**

* Amount represented the issued share capital of the Company as at 1 January 2017 which was less than HK$1,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
Cash flows from operating activities			
Loss before income tax expense		**(10,800)**	(298)
Adjustments for:			
Depreciation of property, plant and equipment		**4,534**	4,277
Finance costs		**89**	94
Loss on disposal of property, plant and equipment		**33**	26
Impairment loss and written off on trade receivables		**441**	–
Impairment loss on contract assets		**75**	–
Interest income		**(27)**	(48)
Operating (loss)/profit before working capital changes		**(5,655)**	4,051
Decrease/(increase) in trade and other receivables		**42,171**	(12,275)
Decrease in amounts due from customers for contract work		**546**	–
Increase in contract assets		**(25,470)**	–
Decrease in trade and other payables		**(5,006)**	(4,370)
Cash generated from/(used in) operations		**6,586**	(12,594)
Income tax refund/(paid), net		**165**	(5,246)
Net cash generated from/(used in) operating activities		**6,751**	(17,840)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(2,681)**	(4,335)
Proceeds from sales of property, plant and equipment		**40**	258
Net cash used in investing activities		**(2,641)**	(4,077)
Cash flows from financing activities			
Proceeds from issuance of new shares under placing	24(c)	**–**	67,500
Share issuance expense	24(b)	**–**	(7,998)
Increase in pledged bank deposits		**(97)**	(8,000)
Proceeds from bank borrowings, secured	21	**14,242**	3,946
Repayments of bank borrowings, secured		**(18,188)**	–
Final and special dividend paid	13	**(6,000)**	–
Share repurchased	24(d)	**(302)**	–
Interest paid		**(89)**	(91)
Repayment of obligations under finance leases		**(252)**	(107)
Net cash (used in)/generated from financing activities		**(10,686)**	55,250
Net (decrease)/increase in cash and cash equivalents		**(6,576)**	33,333
Cash and cash equivalents at beginning of the year		**26,665**	(6,668)
Cash and cash equivalents at end of the year		**20,089**	26,665

1. GENERAL

GME Group Holdings Limited was incorporated in the Cayman Islands on 18 January 2016, as an exempted company with limited liability under the Companies Law, Cap. 22 of the Cayman Islands. The registered office and principal place of business of the Company are located at 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands and Room 1001-2, 10/F, 148 Electric Road, Hong Kong, respectively.

The Company's shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 February 2017.

The Company is an investment holding company and the Group is principally engaged in the provision of underground construction services.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2018

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:

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration

Except as described below, the application of the new HKFRSs and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for current and prior years and/or disclosures set out in these consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening consolidated balance sheet on 1 January 2018, if any.

(i) Classification and measurement of financial instruments

HKFRS 9 basically retained the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and no standalone derivatives and financial liabilities designated as at fair value through profit or loss ("FVTPL") as at 1 January 2018 and 31 December 2018. Also, the Group does not have designated or de-designated any financial assets or liabilities as at FVTPL as at the date of initial application of HKFRS 9 (i.e. 1 January 2018). The impact of HKFRS 9 on the Group's classification and measurement of financial asset is set out below.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

The management of the Group considers that its financial assets are classified at amortised cost and no material impact to the consolidated financial statement on 1 January 2018.

The accounting policies would be applied to the Group's financial assets at amortised cost at follow:

Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 HK$'000	Carrying amount as at 1 January 2018 under HKFRS 9 HK$'000
Contract assets*	N/A	Recognised under HKFRS 15 and subject to impairment provisions under HKFRS 9	23,139	23,139
Trade and other receivables	Loans and receivables	Amortised cost	44,389	44,389
Cash and cash equivalents	Loans and receivables	Amortised cost	26,665	26,665
Pledged bank deposits	Loans and receivables	Amortised cost	8,000	8,000

* The amount under amounts due from customers for contract work and retention receivables has been reclassified to contract assets upon the adoption of the HKFRS 15. Details are explain in Note 2(a)(B) below.

There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. *HKFRS 9 – Financial instruments (Continued)*

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses model". HKFRS 9 requires the Group to recognised ECLs for trade receivables, financial assets at amortised costs and contract assets earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

The Group has elected to measure loss allowances for trade receivables and contract assets and using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on reasonable and supportable information that is available without undue cost or effort at the reporting date, including the Group's 3 years historical credit loss experience, the number of days past due, adjusted for forward-looking factors (i.e. forecast GDP) and specific consideration (such as group size and reputation etc.) to the debtors and the economic environment, which may impact the customers' ability to repay the outstanding balances in order to estimate the ECLs for the impairment assessment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's debt investment at FVOCI are considered to have low credit risk since the issuers' credit rating are high.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) 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 (2) the financial asset is more than 90 days past due.

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

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. *HKFRS 9 – Financial instruments (Continued)*

(ii) Impairment of financial assets (Continued)

a) Impairment of trade receivables and contract assets

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

The Group has performed a detailed analysis and has considered all reasonable and supportable information, including 3 years historical credit loss experience, shared credit risk characteristics and the number of days past due, adjusted for forward-looking factors (i.e. forecast GDP) and specific consideration to the debtors and the economic environment, for estimation of ECLs on its trade receivables and contract assets as at 1 January 2018 upon the adoption of HKFRS 9. The adoption of ECLs model does not have material impact on the carrying amount of the Group's trade receivables and contract assets and no loss allowance was recognised on 1 January 2018.

b) Impairment of other receivables

Other financial assets at amortised cost of the Group includes other receivables, pledged bank deposits and cash and cash equivalents. No changes have been made to loss allowance upon the transition to HKFRS 9 as of 1 January 2018 and no further increase of loss allowance during the year for such balances are recorded as there are no significant change in credit risk and therefore the amount of additional impairment measured under the ECL model is immaterial.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

A. HKFRS 9 – Financial instruments (Continued)

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The Group performed assessments on its financial assets at amortised cost on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 according to the determination of the business model within which a financial asset is held.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

B. HKFRS 15 – Revenue from contracts with customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group elects to use the cumulative effect method for the adoption of HKFRS 15 with cumulative effect of initial application recognised in the opening balance of the retained earnings at 1 January 2018 and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information was prepared with HKAS 18 Revenue and HKAS 11 Construction Contracts.

Under HKFRS 15, the Group recognises the revenue from contract work when the performance obligation is satisfied over time and measures the progress towards complete satisfaction in accordance with the output method. The measurement of the stage of completion of a contract is established by reference to surveys of work performed. HKFRS 15 includes a new terminology "contract assets" which is defined as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time. If there is any satisfied performance obligation but where the Group does not have an unconditional right to consideration, the Group should recognised contract assets.

The adoption of HKFRS 15 has no material impact on the adjustments to the opening balance of the retained earnings at 1 January 2018 in the consolidated statement of changes in equity and the amounts recognised in the consolidated statement of comprehensive income. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	At 1 January 2018 HK$'000	Impact on adoption of HKFRS 15 HK$'000	At 1 January 2018 HK$'000
Amounts due from customers for contract work (Note 17)	546	(546)	–
Contract assets (Note 16)	–	23,139	23,139
Retention receivables (Note 18)	22,593	(22,593)	–
Total current assets	23,139	–	23,139

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (Continued)

B. HKFRS 15 – Revenue from contracts with customers (Continued)

Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first year.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

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

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

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The directors of the Company are in the process of assessing the impact of these new/revised HKFRSs and do not intend to adopt them before their respective effective dates. The nature of the impending changes in accounting policies on adoption of these new/revised HKFRSs is set out below.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis.

The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group's total future minimum lease payments under non-cancelable operating leases (Note22(b)) as at 31 December 2018 are approximately HK$896,000 (2017: HK$1,893,000). Based on the Group's preliminary assessment, the directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

3. GROUP REORGANISATION AND BASIS OF PRESENTATION AND PREPARATION

(a) Group reorganisation

Pursuant to a group reorganisation (the "Group Reorganisation") carried out by the Group in preparation for the listing of shares of the Company on GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group on 17 October 2016. Details of the Group Reorganisation are set out in the section headed "History and Reorganisation" in the Prospectus issued by the Company dated 14 February 2017.

(b) Basis of presentation

The Group Reorganisation only involved inserting new holdings entities at the top of an existing company and has not resulted in any change of economic substances and does involve business combination.

Upon the completion of the Group Reorganisation, the Company holds the entire equity interests, directly or indirectly, of companies comprising the Group.

Accordingly, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2017 have been prepared using the principles of merger accounting as if the current group structure had been in existence throughout those years, or since their respective dates of incorporation or establishment of the combining companies, whichever was shorter.

(c) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing Securities on GEM of the Stock Exchange.

(d) Basic of measurement

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

(e) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company, and all values are rounded to the nearest thousands, except when otherwise indicated.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Other than the Group Reorganisation as described in Note 3(a) and 3(b) above, which merger accounting method is used, acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates are as follows:

Leasehold improvements	Over the lease term but not exceeding 5 years
Furniture and fixtures	20% per annum
Office equipment	20% per annum
Plant and machinery	30% per annum
Motor vehicles	30% per annum

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the terms of the relevant leases.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases

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

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in the profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(e) (A) Financial Instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its financial assets at amortised cost as explain below:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

The Group did not have any financial assets under equity instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) (A) Financial Instruments (accounting policies applied from 1 January 2018) (Continued)

(ii) Impairment loss on financial assets

The Group recognises loss allowances for ECL on trade receivables, contract assets, financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables, and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on information including the Group's 3 years historical credit loss experience, the number of days past due, adjusted for forward-looking factors (i.e. forecast GDP) and specific consideration (such as group size and reputation etc.) to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) 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 (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) (A) Financial Instruments (accounting policies applied from 1 January 2018) (Continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred financial liabilities at amortised cost. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, obligations under finance leases and bank borrowing, secured are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the period.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) (B) Financial Instruments (accounting policies applied until 31 December 2017)

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) (B) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. All of the Group's financial liabilities are classified as financial liabilities at amortised cost, which are initially measured at fair value, net of directly attributable costs incurred. They are subsequently measured at amortised cost using the effective interest method. The related interest expense is recognised in profit or loss. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) (B) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(iv) Effective Interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(vii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(g) Cash and cash equivalents

Cash and cash equivalents, including cash and bank balances, comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purpose of the consolidated statements of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(h) Construction contracts (accounting policies applied until 31 December 2017)

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments. Contract costs comprise direct materials, costs of subcontracting, direct labour and an appropriate portion of variable and fixed construction overheads.

When the outcome of a construction contracts can be estimated reliably, revenue and contract costs associated with the construction contracts are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of each reporting period.

When the outcome of a construction contracts cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Construction contracts (accounting policies applied until 31 December 2017) (Continued)

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

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

(i) (A) Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liabilities under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

As the delayed payment terms in respect of retention receivables are for reasons other than to provide financing to the customers, which is security given to the customer (i.e. the contractor) in case that the Group fails to adequately complete some or all of its obligations under the contract, there are no significant financing component identified.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) (A) Revenue recognition (accounting policies applied from 1 January 2018) (Continued)

(a) Provision of construction services

The Group provides construction services based on contracts entered into with customers. Such contracts are entered into before the services begin. Based on the terms of the contracts and the specific facts and circumstances, the Group recognises revenue from provision of underground construction service is recognised over time as the Group believes that, the underground construction work performed by the Group creates or enhances the assets that the customers control as the assets is created or enhanced. Revenue from provision of construction work is therefore recognised over time using output method, i.e. based on surveys of work completed by the Group to date. The directors of the Company consider that output method would faithfully depict the Group's performance towards complete satisfaction of these performance obligations under HKFRS 15 Revenue from Contracts with Customers.

For contracts that contain variable consideration, the Group estimate the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

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

(b) Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

Contract assets and liabilities

Contract assets represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

Contract assets are recognised when (i) the Group completes the construction works under such services contracts but yet certified by architects, surveyors or other representatives appointed by customers, or (ii) the customers retain retention money to secure the due performance of the contracts. Any amount previously recognised as contract assets are reclassified to trade receivables at the point at which it is invoiced to the customer. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the output method then the Group recognises contract liabilities for the difference.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) (A) Revenue recognition (accounting policies applied from 1 January 2018) (Continued)

Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

(i) (B) Revenue recognition (accounting policies applied until 31 December 2017)

Revenue from contract work is recognised based on the stage of completion of the contracts, provided that the stage of contract completion and the gross billing value of contracting work can be measured reliably. The stage of completion of a contract is established by reference to surveys of work performed.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(j) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on property, plant and equipment, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items directly recognised in other comprehensive income in which case the taxes are also directly recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

(l) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

(m) Related parties

(a) 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 key management personnel of the Group or the Company's parent.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions apply:

(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 the employees of the Group or an entity related to the Group.

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

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of 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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowing pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(o) Segment information

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

The measurement policies the Group uses for reporting segment results under HKFRS 8 "Operating Segment" are the same as those used in its financial statements prepared under HKFRS 8.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements of the Group requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions 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. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimates and assumptions (Continued)

(i) Provision of construction services

Before the adoption of HKFRS 15, recognised amounts of construction contracts revenue and related receivables reflect management's best estimate of each contract's outcome and stage of completion, which are determined on the basis of a number of estimates. This includes the assessment of the profitability of on-going construction contracts. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty. The actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of each reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

Since the adoption of HKFRS 15, the determination of the progress of the construction services involves judgements and the Group recognises revenue based on survey of work performed which reflect the progress towards complete satisfaction of the performance obligation. The customers will provide final statement when the whole project is completed and may have adjustments on accumulated confirmation according to the actual construction work till the day of completion. In addition, when determining the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purposes. As the delayed payment terms in respect of retention receivables are for reasons other than to provide financing to the customers, which is security given to the customer (i.e. the contractor) in case that the Group fail to adequately complete some or all of its obligations under the contract, there are no significant financing component identified.

The Group defines the confirmed and unpriced VOs as variable consideration. These VOs were highly inter-related and regard as modification contract to former contract and made cumulative catch-up adjustment on such. The Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled. The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved and only record these approved VOs when the Group agreed and received interim payment from the customers.

(ii) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value-in-use of the cash-generating unit ("CGU") to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimates and assumptions (Continued)

(iii) Provision of trade receivables

Before the adoption of HKFRS 9, provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer and the related parties. If the financial conditions of the customers and other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Since the adoption of HKFRS 9 on 1 January 2018, management of the Group determines the provision for the trade receivables based on the expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance for financial assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on information including the Group's 3 years historical credit loss experience, the number of days past due, adjusted for forward-looking factors (i.e. forecast GDP) and specific consideration (such as group size and reputation etc.) to the debtors and the economic environment.

(iv) Income taxes

Determining income tax provisions requires the Group to make judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

(v) Estimated useful lives of property, plant and equipment

In determining the useful lives of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is made based on the experience of the Group with similar assets that are used in a similar way. Depreciation charge is revised if the estimated useful lives of items of property, plant and equipment are different from the previous estimation. Estimated useful lives are reviewed, at the end of each of the reporting periods, based on changes in circumstances.

6. SEGMENT INFORMATION

Operating segments

The Group was principally engaged in the provision of underground construction services in Hong Kong. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

All of the Group's revenue was derived from Hong Kong, based on the location of the customers, and all of its non-current assets were located in Hong Kong, based on the location of assets. Therefore, no geographical information is presented.

Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue during the year is as follows:

	2018 **HK$'000**	2017 HK$'000
Customer B	**34,807**	18,822
Customer C	**38,020**	42,988
Customer K	**16,622**	76,868
Customer L	**38,550**	N/A

N/A: The relevant comparative figures for the corresponding period in 2017 representing revenue from relevant customers did not exceed 10% of the Group's revenue.

7. REVENUE

The Group's revenue represents amount received and receivable from contract work performed and is recognised over time in accordance with accounting policy set out in Note 4(i)(A) above for the year ended 31 December 2018 and recognised based on the stage of completion of the contracts in accordance with accounting policy set out in Note 4(i)(B) above for the year ended 31 December 2017 respectively.

The following table provides information about trade receivables and contract assets from contracts with customers.

	2018	2017
	HK$'000	HK$'000
Trade receivables (Note 18(a)	**19,454**	62,905
Contract assets (Note 16)	**25,395**	–

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the provisions of public and private construction. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customers.

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 approximately HK$52,683,000. This amount represents revenue expected to be recognised in the future from partially-completed long-term construction contracts. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur in the next 12 to 24 months.

The Group has applied the practical expedient to its contracts for construction services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for construction production that had an original expected duration of one year or less.

The above amount also does not include any amounts of completion bonuses that the Group may earn in the future by meeting conditions set out in the Group's construction contracts with customers, unless at the reporting date it is highly probable that the group will satisfy the conditions for earning those bonuses. As at 1 January 2018 and 31 December 2018, the Group does not involved any of such completion bonuses.

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived after charging:

	2018 HK$'000	2017 HK$'000
Auditor's remuneration	**730**	588
Listing expense (included in administrative and other expenses)	**–**	6,338
Loss on disposal of property, plant and equipment	**33**	26
Impairment loss on trade receivables	**441**	–
Impairment loss on contract assets	**75**	-
Depreciation of property, plant and equipment	**4,534**	4,277
Operating lease rentals in respect of:		
– Land and buildings	**2,346**	1,795
Finance costs:		
– Interest on bank overdrafts	**–**	72
– Interest on revolving loan	**23**	–
– Interest on bank borrowing, secured	**20**	3
– Interest on finance leases	**46**	19
Employee benefit expenses (Note 9)	**71,385**	92,286

9. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' REMUNERATION

	2018 HK$'000	2017 HK$'000
Wages, salaries and other benefits:		
– Administrative expenses	**11,008**	9,551
– Cost of sales	**57,590**	79,672
	68,598	89,223
Post-employment benefits - defined contribution retirement plan contributions:		
– Administrative expenses	**371**	354
– Cost of sales	**2,416**	2,709
	2,787	3,063
	71,385	92,286

10. FINANCE COSTS

	2018 **HK$'000**	2017 HK$'000
Interest on bank overdrafts	**–**	72
Interest on finance leases (Note a)	**46**	19
Interest on bank borrowing, secured (Note b)	**20**	3
Interest on revolving loan (Note c)	**23**	–
	89	94

Notes:

(a) The finance leases interest expense bears interest rate from 1.90%-2.95% (2017: 2.25%-2.95%) per annum (Note 22(a)).

(b) The bank borrowing interest expense bear interest rate at Hong Kong Interbank Offered Rate plus 2.5% per annum (Note 21).

(c) The revolving loan interest expenses bear interest rate at 1.25% per annum below Prime Rate (Note 21).

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUAL

(i) Directors' remuneration

Directors' remuneration for the year are as follows:

	Fees HK$'000	Salaries and benefits HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2018				
Executive directors:				
Mr. Chuang Wei Chu	**240**	**780**	**–**	**1,020**
Mr. Chuang Chun Ngok Boris	**240**	**1,300**	**30**	**1,570**
	480	**2,080**	**30**	**2,590**
Year ended 31 December 2018				
Independent non-executive directors:				
Mr. Lam Man Bun Alan (Note a)	**240**	**–**	**–**	**240**
Mr. Lau Chun Fai Douglas (Note a)	**240**	**–**	**–**	**240**
Ir Ng Wai Ming Patrick (Note a)	**240**	**–**	**–**	**240**
	720	**–**	**–**	**720**
Total	**1,200**	**2,080**	**30**	**3,310**
Year ended 31 December 2017				
Executive directors:				
Mr. Chuang Wei Chu	204	780	–	984
Mr. Chuang Chun Ngok Boris	204	1,300	28	1,532
	408	2,080	28	2,516
Year ended 31 December 2017				
Independent non-executive directors:				
Mr. Lam Man Bun Alan (Note a)	204	–	–	204
Mr. Lau Chun Fai Douglas (Note a)	204	–	–	204
Ir Ng Wai Ming Patrick (Note a)	204	–	–	204
	612	–	–	612
Total	1,020	2,080	28	3,128

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUAL (CONTINUED)

(i) Directors' remuneration (Continued)

Notes:

(a) Mr. Lam Man Bun Alan, Mr. Lau Chun Fai Douglas, and Ir Ng Wai Ming Patrick were appointed as the independent non-executive directors of the Company on 10 February 2017.

(b) During the current and prior years, none of the directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

(ii) Five highest paid individuals

The five highest paid individuals whose emoluments were the highest in the Group included 2 executive directors of the Company for the year ended 31 December 2018 (2017: 2), whose emoluments are reflected in the analysis as shown above. The remuneration of the remaining highest paid individuals is as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and benefit in kind	**2,102**	1,956
Pension scheme contributions – defined contribution plans	**54**	44
	2,156	2,000

Their remuneration fell within the following bands:

	2018 **Number** **of employees**	2017 Number of employees
Nil to HK$1,000,000	**3**	3

During the current and prior years, none of the five highest paid individuals waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUAL (CONTINUED)

(iii) Senior management's emoluments

The emoluments paid or payable to members of senior management, other than the five highest paid employees were within the following bands:

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**1**	1

12. INCOME TAX

The amount of income tax in the consolidated statement of comprehensive income represents:

	2018 **HK$'000**	2017 HK$'000
Current tax – Hong Kong profits tax		
– charge for the year	**289**	1,508
Deferred tax (Note 23)	**(1,230)**	(144)
Income tax	**(941)**	1,364

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits during the year.

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

	2018 **HK$'000**	2017 HK$'000
Loss before income tax	**(10,800)**	(298)
Tax calculated at the applicable statutory tax rate of 16.5%	**(1,782)**	(49)
Tax effect of non-deductible expenses	**842**	1,413
Tax effect of non-taxable income for tax purpose	**(1)**	–
Income tax at the effective tax rate	**(941)**	1,364

13. DIVIDEND

At an annual general meeting held on 3 May 2018, the Board approved the recommended final dividend of HK$0.4 cents per ordinary share and special dividend of HK$0.8 cents per ordinary share, in aggregate amounting to HK$2,000,000 and HK$4,000,000, respectively, for the year ended 31 December 2017, were paid out on 21 May 2018.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2018.

14. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Group is based on the following data:

	2018 **HK$'000**	2017 HK$'000
Loss:		
Loss for the purpose of basic loss per share	**(9,859)**	(1,662)
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**499,887**	482,192

Note: The weighted average number of ordinary shares during the year ended 31 December 2018 was calculated as 499,887,000 based on the repurchase of shares. Details of the repurchase of shares are set out in Note 24(d) to the consolidated financial statements.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
As at 1 January 2017	121	160	635	12,942	1,523	15,381
Additions	34	93	248	3,892	668	4,935
Disposals	(121)	(85)	(371)	(2,079)	(787)	(3,443)
At 31 December 2017	34	168	512	14,755	1,404	16,873
Additions	–	4	97	1,967	1,141	3,209
Disposals	–	–	–	–	(189)	(189)
At 31 December 2018	34	172	609	16,722	2,356	19,893
Aggregate depreciation						
As at 1 January 2017	121	94	394	4,844	1,152	6,605
Charge for the year	4	20	111	3,888	254	4,277
Written back	(121)	(85)	(371)	(1,795)	(787)	(3,159)
At 31 December 2017	4	29	134	6,937	619	7,723
Charge for the year	7	33	108	3,891	495	4,534
Written back	–	–	–	–	(116)	(116)
At 31 December 2018	11	62	242	10,828	998	12,141
Net carrying amount						
At 31 December 2018	23	110	367	5,894	1,358	7,752
At 31 December 2017	30	139	378	7,818	785	9,150

The carrying amount of the Group's office equipment and motor vehicles include an amount of approximately HK$832,000 and HK$656,000 for the year ended 31 December 2018 and 2017, respectively, in respect of assets acquired under finance leases (Note 22).

16. CONTRACT ASSETS

	2018 HK$'000
Contract assets arising from:	
Construction services	
– Reclassified from amount due from customer for contract work (Note 17)	**546**
– Recognised during the year	**452**
Retention receivables from contracts with customers within the scope of HKFRS 15 which are included in "Trade and other receivables" (Note 18(b))	**24,472**
Less: Impairment	**(75)**
	25,395

Construction services

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. Additionally, the Group typically agrees 1-2 years retention period for 5% of the contract sum, which is kept in contract assets until the end of the retention period as the Group's entitlement to it is conditional on the Group's work satisfactorily passing inspection.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	HK$'000
Within one year	**22,973**
More than one year and less than two years	**2,422**
Total contract assets	**25,395**

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates for the measurement of the ECLs of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables appropriately grouped by similar loss pattern, i.e. under "current-not yet due". The calculation reflects the probability weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions.

16. CONTRACT ASSETS (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

At 31 December 2018	**%**
Expected credit losses rate	**0.3**

	HK$'000
Gross carrying amount	**25,395**
Expected credit losses	**75**

17. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2017 HK$'000
Contracts in progress:	
Contract costs incurred	169,258
Recognised profits less recognised losses	61,962
	231,220
Less: progress billings	(230,674)
	546
Reclassified to contract assets (Note)	(546)
	–
Represented by:	
Amounts due from customers for contract work	–
Amounts due to customers for contract work	–
	–

Note: The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of HKFRS 15, amounts previously included as "Amounts due from customers for contract work" (Note 17) have been reclassified to "Contract assets" (Note 16).

18. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables (Note (a))	**19,682**	40,312
Less: Impairment	**(228)**	–
	19,454	40,312
Retention receivables (Note (b))	**–**	22,593
Prepayments and deposits (Note (c))	**6,168**	5,302
	25,622	68,207

Notes:

(a) Trade receivables were mainly derived from provision of construction services and non-interest bearing. The Group does not hold any collateral or other credit enhancements over these balances. The credit period granted by the Group to its customers is generally 21 to 60 days.

The following is an analysis of trade receivables by age, presented based on the invoice dates:

	2018 HK$'000	2017 HK$'000
Less than 1 month	**15,204**	27,275
1 to 3 months	**3,276**	12,674
More than 3 months but less than one year	**–**	15
More than one year	**974**	348
	19,454	40,312

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(a) The ageing of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2018 HK$'000	2017 HK$'000
Neither past due nor impaired	**17,366**	39,949
Less than 1 month past due	**1,114**	–
1 to 3 months past due	**–**	15
More than 3 months past due but less than 1 year past due	**–**	–
More than 1 year past due	**974**	348
	19,454	40,312

Trade receivables that were neither past due nor impaired relate to customers for whom there is no recent history of default.

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Starting from 1 January 2018, the Group applied simplified approach to provide the expected credit losses prescribed by HKFRS 9, which is set out in Notes 4(e)(A)(ii) and 31(a) respectively.

Movement in provision for impairment of trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
At the beginning of the year	**–**	250
Effect of adoption of HKFRS 9	**–**	–
At beginning of year (restated)	**–**	250
Impairment loss and written off on trade receivables	**441**	–
Amounts written off during the year	**(213)**	(250)
At the end of the year	**228**	–

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(b) Upon the adoption of HKFRS 15, all of retention receivables, for which the Group's entitlement to the consideration was conditional on satisfactory completion of the retention period, were reclassified to "Contract assets" and disclosed in Note 16.

(c) As at 31 December 2018, the prepayments and deposits mainly comprised (i) rental deposit of machineries and equipment of approximately HK$1,539,000 (2017: HK$1,539,000), (ii) deposit to subcontractors of approximately HK$Nil (2017: HK$1,720,000), (iii) rental deposit of office of approximately HK$380,000 (2017: HK$358,000), (iv) other receivables of staff advance of approximately HK$171,000 (2017:HK$77,000), (v) other receivables of cost refund in material purchased of approximately HK$1,140,000 (2017: HK$Nil), (vi) other receivables of return fund from insurance company of approximately HK$773,000 (2017:HK$Nil) and (vii) other receivables of security account for share buyback of approximately HK$194,000 (2017:HK$Nil). Prepayments and deposits as at 31 December 2018 and 2017 were neither past due nor impaired. Financial assets included in these balances are non-interest bearing and relate to receivables for which there was no recent history of default.

19. CASH AND CASH EQUIVALENTS & PLEDGED BANK DEPOSITS

	2018 **HK$'000**	2017 HK$'000
Cash and bank balances	**20,089**	26,665
Short term deposits	**8,097**	8,000
	28,186	34,665
Less: pledged bank deposits	**(8,097)**	(8,000)
Cash and cash equivalents	**20,089**	26,665

Cash and cash equivalents of the Group represent cash at banks and in hand.

The Group has pledged its short-term deposits as securities for its banking facilities (see Note 21 for further details).

The effective interest rate of pledged bank deposits was 1.05% (2017: 0.80%) per annum as at 31 December 2018.

20. TRADE AND OTHER PAYABLES

	2018 **HK$'000**	2017 HK$'000
Trade payables (Note (a))	**1,439**	2,097
Other payables and accruals (Note (b))	**4,708**	9,056
	6,147	11,153

Notes:

(a) An ageing analysis of trade payables as at the end of the reporting period, based on the invoice dates, is as follows:

	2018 **HK$'000**	2017 HK$'000
Current or less than 1 month	**617**	1,286
1 to 3 months	**754**	712
More than 3 months but less than one year	**68**	99
More than one year	**–**	–
	1,439	2,097

The Group's trade payables are non-interest bearing and generally have payment terms of 0 to 30 days.

(b) As at 31 December 2018, other payables and accruals mainly comprise the accrued salary and wages for December 2018 of approximately HK$3,224,000 (2017: HK$7,354,000), which were fully settled on 10 January 2019. The balance of other payables and accruals are non-interest bearing and have average payment terms of one to three months.

21. BANK BORROWING, SECURED

	2018 HK$'000	2017 HK$'000
Bank borrowing	–	3,946

The bank borrowing bore an interest at Hong Kong Interbank Offered Rate plus 2.5% per annum for the year ended 31 December 2017, which is secured by the corporate guarantee from the Company. The bank borrowing was fully settled on 26 January 2018.

The Group has a bank facility of a revolving term loan bears an interest at 1.25% per annum below Prime Rate for the year ended 31 December 2018 from a bank which is secured by the corporate guarantee from the Company and the pledged bank deposit (Note 19) of HK$8,097,000 as at 31 December 2018 (2017: HK$8,000,000). Such bank facility is not yet utilised as at 31 December 2018.

22. LEASES

(a) Finance leases

The Group leases office equipment and motor vehicles for business use. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount. The lease obligations are secured by the underlying leased assets.

Future lease payments are due as follows:

	Minimum lease payments HK$'000	Interest HK$'000	Present value HK$'000
As at 31 December 2018			
Not later than one year	**311**	**(38)**	**273**
Later than one year and not later than two years	**258**	**(26)**	**232**
Later than two years and not later than five years	**496**	**(23)**	**473**
	1,065	**(87)**	**978**

22. LEASES (CONTINUED)

(a) Finance leases (Continued)

	Minimum lease payments HK$'000	Interest HK$'000	Present value HK$'000
As at 31 December 2017			
Not later than one year	205	(27)	178
Later than one year and not later than two years	201	(19)	182
Later than two years and not later than five years	360	(18)	342
	766	(64)	702

The present value of future lease payments are analysed as:

	2018 HK$'000	2017 HK$'000
Current liabilities	**273**	178
Non-current liabilities	**705**	524
	978	702

(b) Operating leases – lessee

The Group leased its office and land for storing machineries under operating leases. The leases run for an initial period of one to two years. None of these leases include any contingent rentals.

The total future minimum lease payments under non-cancellable operating leases are due as follows:

	2018 HK$'000	2017 HK$'000
Not later than one year	**833**	1,492
Later than one year and not later than five years	**63**	401
	896	1,893

23. DEFERRED TAX (ASSETS)/LIABILITIES

Details of the deferred tax (assets)/liabilities recognised and movements during the current and prior years are as follows:

	Deferred tax liabilities/ (assets) HK$'000
At 1 January 2017	1,066
Credited to profit for the year (Note 12)	(144)
At 31 December 2017 and 1 January 2018	922
Credited to profit for the year (Note 12)	(1,230)
At 31 December 2018	(308)

24. SHARE CAPITAL

	The Company	
	Number of shares	**Amount HK'000**
Authorised:		
Ordinary share of HK$0.01 each		
As at 1 January 2017	38,000,000	380
Increase in authorised share capital (Note (a))	1,962,000,000	19,620
As at 31 December 2017, 1 January 2018 and 31 December 2018	2,000,000,000	20,000
Issued and fully paid		
Ordinary share of HK$0.01 each		
As at 1 January 2017	1,800	–
Capitalisation issue of shares (Note (b))	374,998,200	3,750
Issue of new shares under placing (Note (c))	125,000,000	1,250
As at 31 December 2017 and 1 January 2018	500,000,000	5,000
Share repurchased and cancelled (Note (d))	(1,768,000)	(18)
As at 31 December 2018	498,232,000	4,982

24. SHARE CAPITAL (CONTINUED)

Notes:

(a) Pursuant to the written resolution passed on 10 February 2017, the authorised share capital of the Company was increased from HK$380,000 to HK$20,000,000 by creation of an additional 1,962,000,000 ordinary shares of the Company.

(b) Pursuant to written resolutions passed on 10 February 2017, the Directors authorised to capitalize a sum of approximately HK$3,750,000 from the amount standing to the credit of the share premium account of the Company and applied such amount to pay up in full at par of 374,998,200 ordinary shares of the Company ("Capitalisation Issue").

(c) Under a placing which took place during the year ended 31 December 2017, 125,000,000 new ordinary shares of HK$0.01 each were issued at a price of HK$0.54 per share for a total cash consideration (before share issuance expenses) of approximately HK$67,500,000.

(d) Out of 2,136,000 ordinary shares of the Company repurchased on the Stock Exchange (the "Share Repurchase") during the year ended 31 December 2018, 1,768,000 ordinary shares were cancelled during the year ended 31 December 2018 while the remaining 368,000 ordinary shares were cancelled in January 2019. The total consideration of the Share Repurchase was approximately HK$302,000 excluding brokerage fees and other expenses. Particulars of the Share Repurchase and cancellation of Shares during the year ended 31 December 2018 are as follows:

Month of Share Repurchase	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
November 2018	236,000	0.118	0.100	25,760
December 2018	1,532,000	0.148	0.134	224,788
	1,768,000			250,548

(e) During the period from 20 December 2018 to 31 December 2018, 368,000 ordinary shares of the Company were repurchased at an aggregate cost of approximately HK$51,000. Subsequently, the repurchased shares during such period were cancelled on 30 January 2019, and accordingly, the Company's share capital and share premium were reduced by approximately HK$3,000 and approximately HK$48,000 respectively.

25. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries		**37,904**	37,904
Current assets			
Prepayment and deposit		**654**	408
Amount due from a subsidiary		**27,401**	22,166
Cash and cash equivalents		**10,716**	19,163
		38,771	41,737
Current liabilities			
Accruals and other payables		**943**	784
		943	784
NET ASSETS		**75,732**	78,857
EQUITY			
Share capital	24	**4,982**	5,000
Reserves	26	**70,750**	73,857
TOTAL EQUITY		**75,732**	78,857

On behalf of the Board

Chuang Chun Ngok Boris
Director

Chuang Wei Chu
Director

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements. Movements in the Company's reserves during the current and prior years are as follows:

	Share premium (Note (a)) HK$'000	Accumulated losses (Note (e)) HK$'000	Share repurchase reserve (Note (b)) HK$'000	Total HK$'000
At 1 January 2017	37,904	(8,326)	–	29,578
Capitalisation issue of shares (Note 24(b))	(3,750)	–	–	(3,750)
Issue of new shares under placing (Note 24(c))	66,250	–	–	66,250
Share issuance expenses	(7,998)	–	–	(7,998)
Loss for the year	–	(10,223)	–	(10,223)
At 31 December 2017 and 1 January 2018	92,406	(18,549)	–	73,857
Share repurchased and cancelled (Note 24(d))	(233)	–	–	(233)
Share repurchased and yet to be cancelled (Note 24(e))	–	–	(51)	(51)
Final and special dividend paid (Note 13)	–	(6,000)	–	(6,000)
Profit for the year	–	3,177	–	3,177
At 31 December 2018	**92,173**	**(21,372)**	**(51)**	**70,750**

The nature and purpose of reserves with in equity are as follows:

(a) Share premium

Under the Companies Law (as revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be paid, the Company shall be pay its debts as the fall due in the ordinary of business.

(b) Share repurchase reserve

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity.

(c) Capital reserve

The amount represents capital contribution from equity holders.

(d) Other reserve

The other reserve of the Group represents the difference between the total equity of those subsidiaries and the aggregated share capital of the relevant subsidiaries pursuant to the group reorganisation where the transfer of the relevant subsidiaries to the Company are satisfied by issue of new shares from the Company.

(e) Retained earnings/accumulated losses

The amount represents cumulative net gains and losses recognised in profit or loss.

27. PARTICULARS OF SUBSIDIARIES

The particulars of the Company's subsidiaries as at 31 December 2018 are set out as follows:

Name of entity	Place and date of incorporation and form of business structure	Percentage of equity attributable to the Company		Issued and fully paid ordinary share capital or registered capital	Principal activities and principal place of business
		Direct	Indirect		
GME International Limited ("GMEBVI")	The British Virgin Islands, 23 February 2016, limited liability company	100%	–	1 ordinary share of HK$1	Investment holding, Hong Kong
Good Mind Engineering Limited ("GMEHK")	Hong Kong, 22 March 1994, limited liability company	–	100%	1,800,000 ordinary shares of HK$1,800,000	Provision of underground construction services, Hong Kong

28. MAJOR NON-CASH TRANSACTIONS

The Group entered into finance leases agreements in respect of purchase of property, plant and equipment with a capital value at the inception of the leases of approximately HK$528,000 during the year ended 31 December 2018 (2017: HK$600,000).

29. CONTINGENT LIABILITIES

(a) Contingent liabilities in respect of legal claims

As at 31 December 2018, there were a number of labour claims lodged against the Group arising from the ordinary course of its civil engineering construction business. No specific claim amount has been specified in the applications of these claims. In the opinion of the directors, the outflow of resources required in settling these claims if any, was remote as these claims are usually covered by insurance maintained by relevant main contractors. Therefore, the ultimate liability under these claims would not have a material adverse impact on the financial position or performance of the Group and no provision for the contingent liabilities in respect of the litigations is necessary.

(b) Guarantee issued

At the end of each reporting period, the Group provided guarantee to an insurance company of the following:

	2018 **HK$'000**	2017 HK$'000
Surety bond issued in favour of customers (Note)	**5,647**	2,049

Note:

As at 31 December 2018, a surety bond at amount of approximately HK$5,647,000 (2017: HK$2,049,000) was given by an insurance company in favour of the Group's customers as security for the due performance and observance of the Group's obligation under the subcontract entered into between the Group and its customers. If the Group fails to provide satisfactory performance to its customers to whom the surety bond has been given, the customers may demand the insurance company to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate the insurance company accordingly. The surety bond will be released upon completion of the subcontract work for the customers.

The directors are of the opinion that the amount of approximately HK$5,647,000 (2017: HK$2,049,000) was the maximum exposure to the Group and it is not probable that insurance company would claim the Group for losses in respect of the guarantee contracts as it is unlikely that the Group is unable to fulfil the performance requirements of the relevant contract. Accordingly, no provision for the Group's obligations under the guarantees has been made as at 31 December 2018.

The controlling shareholders of the Company have entered into a deed of indemnity on 10 February 2017 whereby they have agreed, subjected to the terms and conditions of the deed of indemnity, to indemnify the Group, among other matters, all losses and liabilities arising from any litigations against the Group since prior to the Listing.

30. RELATED PARTY TRANSACTIONS

The Group did not have any related party transactions during the year ended 31 December 2018 (2017:Nil).

Key management personnel compensation

The key management personnel of the Group are the Directors of the Company. Details of the remuneration paid to them during the current and prior years are set out in Note 11 to the consolidated financial statements.

31. FINANCIAL RISK MANAGEMENT

The Group's principal financial assets are trade and other receivables, contract assets and cash and bank balances that derive directly from its operations. Principal financial liabilities of the Group include trade and other payables, borrowing and obligations under finance leases. The main purpose of these financial liabilities is to finance the Group's operations.

The Group has not issued and does not hold any financial instruments for trading purposes at the end of the reporting period. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contracts, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and contract assets) and deposits with banks.

The credit risk of Group's trade receivables are concentrated, since 81% of which was derived from five largest customers as at 31 December 2018 (2017: 94%).

The Group had a concentration of credit risk as certain of the Group's trade receivables and contract assets were due from the Group's largest customer and the five largest customers as detailed below.

	2018 **HK$'000**	2017 HK$'000
Largest customer	**7,254**	18,416
Five largest customers	**17,436**	59,133

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 18.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

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

ECLs for trade receivables:	Expected loss rate (%)	Gross carrying amount (HK$'000)	Loss allowance (HK$'000)
Current (Not past due)	0.135	18,505	25
31-60 days past due	–	–	–
61-90 days past due	–	–	–
More than 90 days past due	17.247	1,177	203
		19,682	228

ECLs for contract assets:	Expected loss rate (%)	Gross carrying amount (HK$'000)	Loss allowance (HK$'000)
Current (not past due)	0.294	25,469	75
31-60 days past due	–	–	–
61-90 days past due	–	–	–
More than 90 days past due	–	–	–
		25,469	75

Expected loss rates are based on actual loss experience over the past 3 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 receivables.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(e)B(ii)). At 31 December 2017, trade receivables of approximately HK$250,000 was determined to be written off. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	39,949
1-30 days past due	–
31-90 days past due	15
91 – 365 days past due	–
Over 365 days past due	348
	40,312

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.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

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

	2018 **HK$'000**	2017 HK$'000
Balance at 31 December under HKAS 39	**–**	250
Impact of initial application of HKFRS 9 (Note 2(a)A)	**–**	–
Adjusted balance at 1 January	**–**	250
Impairment losses and written off recognised during the year	**516**	–
Amounts written off during the year	**(213)**	(250)
Balance at 31 December	**303**	–

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance during 2018:

- Origination of new trade receivables net of those settled resulted in an increase in loss allowance of HK$100,000;

- Increase in days past due over 90 days resulted in an increase in loss allowance of approximately HK$203,000; and

The Group's customers are reputable corporations and thus credit risk is considered to be low. Credit risk on other receivables is minimal as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group during the reporting period and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level. None of the Group's financial assets are secured by collateral or other credit enhancements.

The Group's major bank balances are deposited with banks with good reputation and with high credit-ratings assigned by international credit-rating agencies and hence management does not expect any losses from non-performance by these banks.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

In the management of liquidity risk, the Group's policy is to regularly monitor its liquidity requirements in order to maintain sufficient reserves of cash in the short and long term. The liquidity policies have been followed by the Group during the reporting period and are considered to have been effective in managing liquidity risk.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period.

	Carrying amount HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Less than one year or repayable on demand HK$'000**	**One year or above HK$'000**
As at 31 December 2018				
Trade and other payables	**6,147**	**6,147**	**6,147**	**–**
Obligations under finance leases	**978**	**1,065**	**311**	**754**
	7,125	**7,212**	**6,458**	**754**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Less than one year or repayable on demand HK$'000	One year or above HK$'000
As at 31 December 2017				
Bank overdrafts	3,946	3,960	3,960	–
Trade and other payables	11,153	11,153	11,153	–
Obligations under finance leases	702	766	205	561
	15,801	15,879	15,318	561

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, and bank borrowing secured. Interests charged on the Group's loan from bank borrowing, secured are at variable rates which are linked up to the relevant bank interest rate. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank balances, and bank borrowing secured. The analysis is prepared assuming that the amounts of assets and liabilities outstanding at the end of each reporting period were outstanding for the whole year. 50 basis points and 100 basis points increase or decrease represent management's assessment of the reasonably possible change in interest rates of bank balances, and bank borrowing, secured, respectively.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of the reporting period do not reflect the exposures during the year.

If interest rates on bank balances had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the years ended 31 December 2018 and 2017 is as follows:

	2018 **HK$'000**	2017 HK$'000
Increase/(decrease) in profit for the year		
– as a result of increase in interest rate	**100**	133
– as a result of decrease in interest rate	**(100)**	(133)

If interest rates on bank borrowing, secured had been 100 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the years ended 31 December 2018 and 2017 is as follows:

	2018 **HK$'000**	2017 HK$'000
(Decrease)/increase in profit for the year		
– as a result of increase in interest rate	**N/A**	39
– as a result of decrease in interest rate	**N/A**	(39)

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Bank borrowing, secured (Note 21) HK$'000	Obligations under finance leases (Note 22) HK$'000	Bank overdrafts (Note 21) HK$'000	Bank revolving loan (Note 21) HK$'000	Dividend payable HK$'000	Total HK$'000
As at 1 January 2017	–	209	8,772	–	–	8,981
Change from cash flows:						
Proceeds from bank borrowing, secured	3,946	–	–	–	–	3,946
Repayment of finance lease	–	(107)	–	–	–	(107)
Interest paid	–	(19)	(72)	–	–	(91)
Total changes from financing cash flow	3,946	83	8,700	–	–	12,729
Other changes:						
New finance leases	–	600	–	–	–	600
Interest expenses	3	19	72	–	–	94
Repayment of bank overdrafts	–	–	(8,772)	–	–	(8,772)
Accrued interest expense (including in trade and other payables)	(3)	–	–	–	–	(3)
As at 31 December 2017	3,946	702	–	–	–	4,648
Proceed from bank borrowing secured	8,933	–	–	5,309	–	14,242
Change from cash flows:						
Repayment of finance lease	–	(252)	–	–	–	(252)
Interest paid	(20)	(46)	–	(23)	–	(89)
Dividend paid	–	–	–	–	(6,000)	(6,000)
Total changes from financing cash flow	12,859	404	–	5,286	(6,000)	12,549
Other changes:						
Repayment of bank borrowings	(12,879)	–	–	(5,309)	–	(18,188)
New finance leases	–	528	–	–	–	528
Interest expenses	20	46	–	23	–	89
Dividend payable	–	–	–	–	6,000	6,000
As at 31 December 2018	**–**	**978**	**–**	**–**	**–**	**978**

33. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the year.

The Group monitors capital using a gearing ratio, which is total debts divided by total capital. Total debts are the total of other payables, bank borrowing, secured and obligations under finance leases. Capital represents equity attributable to owners of the Company.

	2018 **HK$'000**	2017 HK$'000
Total debt	**5,686**	13,704
Equity attributable to the owners of the Company	**81,635**	97,796
Gearing ratio	**7%**	14%

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILIITES BY CATEGORY

	2018 **HK$'000**	2017 HK$'000
Financial assets		
At amortised cost (including cash and cash equivalents)	**78,335**	102,193
Financial liabilities		
Financial liabilities measured at amortised cost	**7,125**	15,801

35. CAPITAL COMMITMENTS

As at 31 December 2018, the Group did not have any capital commitment (2017: Nil).

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2019.