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)**

# 2019

## FIRST QUARTERLY 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

## Compliance Officer

Mr. Chuang Chun Ngok Boris

## Company Secretary

Mr. Sze Chun Kit *(HKICPA)*
E-mail: companysecretary@gmehk.com
Fax: +852 3105 1881

## Authorised Representatives

Mr. Chuang Chun Ngok Boris
Mr. Sze Chun Kit

## Registered Office

4th Floor
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103 South Church Street
P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

## Headquarters and Principal Place of Business in Hong Kong

Room 1001-2, 10/F
148 Electric Road
Hong Kong

## Principal Share Registrar and Transfer Office

Harneys Services (Cayman) Limited
4th Floor
Harbour Place
103 South Church Street
P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

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

## Auditor

BDO Limited
*Certified Public Accountants*
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

## Legal Advisers as to Hong Kong Laws

Howse Williams
27/F Alexandra House
18 Chater Road
Central
Hong Kong

## Compliance Adviser

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

## Principal Bankers

Bank of China (Hong Kong) Limited

DBS Bank (Hong Kong) Limited

Dah Sing Bank, Limited

## Company Website

www.gmehk.com

## Stock Code

8188

## Investor Relations

E-mail: ir@gmehk.com
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## FINANCIAL HIGHLIGHTS (UNAUDITED)

The board of Directors (the "**Board**") of the Company is pleased to announce the unaudited condensed consolidated first quarterly results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the three months ended 31 March 2019 (the "**Reporting Period**"), together with the unaudited comparative figures for the corresponding period in 2018.

The Group's revenue decreased from approximately HK$43,944,000 for the three months ended 31 March 2018 to approximately HK$21,988,000 for the three months ended 31 March 2019, representing a decrease of approximately HK$21,956,000 or 50.0%. Such significant decrease in revenue was mainly attributable to the decrease in revenue recognition upon the substantial completion of major infrastructures projects in late 2018 and the lower revenue recognised for newly awarded public tunnel construction project of the Group during the Reporting Period as they had just commenced in March 2019, resulting in the decrease in revenue generated from public tunnel construction projects during the Reporting Period.

The Group's gross profit decreased from approximately HK$6,238,000 for the three months ended 31 March 2018 to approximately HK$1,200,000 for the three months ended 31 March 2019, representing a decrease of approximately HK$5,038,000 or 80.8%. The gross profit margin was approximately 5.5% for the three months ended 31 March 2019 (for the three months ended 31 March 2018: approximately 14.2%). Such substantial decrease in gross profit margin was mainly due to the generally lower profit margins of work performed on non-tunnel construction projects during the Reporting Period as compared to the tunnel construction projects in the corresponding period in 2018 and the increasing competition in the construction market which resulted in lower profit margins for the projects in 2019.

The Group's loss and total comprehensive expenses for the period attributable to the owners of the Company ("**Net Loss**") for the three months ended 31 March 2019 was approximately HK$4,171,000 while the Group's profit and total comprehensive income for the period attributable to the owners of the Company ("**Net Profit**") for the three months ended 31 March 2018 was approximately HK$269,000. The change from Net Profit for the three months ended 31 March 2018 to Net Loss for the three months ended 31 March 2019 was mainly due to the decrease in revenue and gross profit during the Reporting Period and the increasing competition in the construction market which resulted in lower profit margins for the projects in 2019 as discussed above.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the three months ended 31 March 2019*

| | Notes | Three months ended 31 March 2019 HK$'000 (Unaudited) | 2018 HK$'000 (Unaudited) |
|---|---|---|---|
| Revenue | 5 | **21,988** | 43,944 |
| Cost of services | | **(20,788)** | (37,706) |
| Gross profit | | **1,200** | 6,238 |
| Other income | | **34** | 16 |
| Administrative expenses | | **(5,930)** | (5,780) |
| Finance costs | | **(28)** | (19) |
| (Loss)/profit before income tax | 6 | **(4,724)** | 455 |
| Income tax | 7 | **553** | (186) |
| (Loss)/profit and total comprehensive (expenses)/ income for the period attributable to the owners of the Company | | **(4,171)** | 269 |
| **(Loss)/earnings per share** | | | |
| – Basic and diluted (HK cents) | 9 | **(0.8)** | 0.1 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the three months ended 31 March 2019*

| | Attributable to the owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (unaudited) | Share premium HK$'000 (unaudited) | Share repurchase reserve HK$'000 (unaudited) | Capital reserve HK$'000 (unaudited) | Other reserve HK$'000 (unaudited) | Retained earnings HK$'000 (unaudited) | Total HK$'000 (unaudited) |
| **For the three months ended 31 March 2019** | | | | | | | |
| As at 1 January 2019 | **4,982** | **92,173** | **(51)** | **90** | **(36,104)** | **20,545** | **81,635** |
| Loss and total comprehensive expenses for the period | **–** | **–** | **–** | **–** | **–** | **(4,171)** | **(4,171)** |
| Share repurchased and cancelled (Note 10) | **(51)** | **(687)** | **51** | **–** | **–** | **–** | **(687)** |
| As at 31 March 2019 | **4,931** | **91,486** | **–** | **90** | **(36,104)** | **16,374** | **76,777** |
| **For the three months ended 31 March 2018** | | | | | | | |
| As at 1 January 2018 | 5,000 | 92,406 | – | 90 | (36,104) | 36,404 | 97,796 |
| Profit and total comprehensive income for the period | – | – | – | – | – | 269 | 269 |
| As at 31 March 2018 | 5,000 | 92,406 | – | 90 | (36,104) | 36,673 | 98,065 |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the three months ended 31 March 2019*

## 1. GENERAL INFORMATION

The Company 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 in Hong Kong 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.

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

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group for the three months ended 31 March 2019 (the "**Unaudited Condensed Consolidated Financial Statements**") have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), Hong Kong Accounting Standards ("**HKAS**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosures required by the GEM Listing Rules.

The Unaudited Condensed Consolidated Financial Statements do not include all of the information and disclosures required in the annual consolidated financial statements and hence should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2018 (the "**2018 Consolidated Financial Statements**"), which have been prepared in accordance with HKFRS and the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The Unaudited Condensed Consolidated Financial Statements have not been audited by the Company's auditor, but have been reviewed by the audit committee of the Company ("**Audit Committee**").

The Unaudited Condensed Consolidated Financial Statements have been prepared under the historical cost basis.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

The Unaudited Condensed 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.

Except as described in the section headed "Change in the accounting policies" below, the accounting policies applied and the method of computation used in the preparation of the Unaudited Condensed Consolidated Financial Statements are consistent with those adopted in the preparation of the 2018 Consolidated Financial Statements.

For the purpose of preparing and presenting the financial information of the Unaudited Condensed Consolidated Financial Statements, the Group has consistently adopted HKFRS issued by HKICPA which are effective for the Group's financial year beginning on 1 January 2019. The Group has not early applied the new and revised HKFRS that have been issued by HKICPA but are yet to be effective.

## 3. CHANGE IN THE ACCOUNTING POLICIES

***HKFRS 16 – Leases***

HKFRS 16 supersedes HKAS 17 Leases and related interpretations. HKFRS 16 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. Generally, the Group uses its incremental borrowing rate as the discount rate.

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.

## 3. CHANGE IN THE ACCOUNTING POLICIES (Continued)

### *HKFRS 16 – Leases (Continued)*

The adoption of HKFRS 16 would not result in a significant impact on the Group's results but certain portion of these lease commitments is recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities at 1 January 2019.

The Group has elected to use the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17. Therefore, the Group will not reassess whether a contract is, or contain, a lease which already existed prior to the date of initial application.

The Group has applied HKFRS 16 using the modified retrospective approach at 1 January 2019 and the comparative figures of the Reporting Period has not been restated and continue to be reported under HKAS 17.

For the leases previously classified as operating leases, the Group recognises a lease liability, measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The Group applies the practical expedient not to recognise right-of-use assets and lease liabilities in respect of land and building that have a lease term of 12 months or less at the date of initial application. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For the leases previously classified as finance leases under HKAS 17, the carrying amount of the right-of-use asset and the lease liabilities at the date of initial application shall be the carrying amount of the lease asset and lease liabilities immediately before that date measured applying HKAS 17.

The adoption of HKFRS 16 has no material effect on the adjustments to the opening balance of the retained earnings at 1 January 2019 in the condensed consolidated statement of changes in equity.

## 4. 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.

## 4. SEGMENT INFORMATION (Continued)

### *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*

Since 1 January 2019, the Group has adopted a new basis for its customers classification for the main contractors in joint ventures. The information about major customers during the Reporting Period and its comparative figures will be presented based on such classification. Under the new classification, the revenue contributed by a joint venture customer will be considered as equally contributed by each participant of such joint venture. The Directors consider that such classification is more accurate in describing and reflecting the composition of the contracting joint venture and gives a more comprehensive presentation and assessment of the credit risk of each participant in the joint venture.

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

| | **Three months ended 31 March** | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Customer B | **5,177** | 17,577 |
| Customer C | **2,945** | 8,543 |
| Customer K | **N/A** | 7,218 |
| Customer L | **N/A** | 8,058 |
| Customer M | **2,355** | – |
| Customer P | **6,500** | – |
| Customer R | **2,355** | – |

N/A: The relevant revenue figures did not exceed 10% of the Group's revenue.

## 5. REVENUE

The Group's revenue represents amount received and receivable from contract work performed and is recognised over time using output method, i.e. based on surveys of work completed by the Group to date.

## 6. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived after charging:

| | Three months ended 31 March | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Auditor's remuneration | **189** | 186 |
| Depreciation of: | | |
| – Property, plant and equipment | **1,227** | 1,026 |
| – Right-of-use assets | **434** | – |
| Expenses related to short-term leases | **155** | – |
| Operating lease rentals in respect of: | | |
| – Land and buildings | **–** | 584 |
| Finance costs: | | |
| – Interest on bank borrowing, secured | **–** | 10 |
| – Interest on finance leases | **–** | 9 |
| – Interest on lease liabilities | **28** | – |
| Employee benefit expenses, including Directors' remuneration | **12,879** | 24,597 |

## 7. INCOME TAX

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

| | Three months ended 31 March | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Current tax – Hong Kong profits tax | | |
| – charge for the Reporting Period | **–** | 257 |
| Deferred tax | **(553)** | (71) |
| Income tax (credit)/expense | **(553)** | 186 |

Hong Kong profits tax is calculated at 16.5% (for the three months ended 31 March 2018: 16.5%) of the estimated assessable profits during the Reporting Period.

## 8. DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2019 (for the three months ended 31 March 2018: nil).

## 9. (LOSS)/EARNINGS PER SHARE

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

| | Three months ended 31 March | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| (Loss)/earnings: | | |
| (Loss)/earnings for the purpose of basic (loss)/earnings per share | **(4,171)** | 269 |
| | **2019** | 2018 |
| | **Number of shares** | Number of shares |
| | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share (Note) | **494,727** | 500,000 |

Note: The weighted average number of ordinary shares in issue during the three months ended 31 March 2019 was calculated based on the number of ordinary shares in issue after the cancellation of the shares repurchased by the Company during the Reporting Period. Details of the movement of shares of the Company are set out in the section headed "Share Capital" below.

Diluted (loss)/earnings per share is same as basic (loss)/earnings per share as there was no dilutive potential shares for the three months ended 31 March 2019 and 2018.

## 10. SHARE CAPITAL

| | The Company | |
|---|---|---|
| | Number of shares | Amount HK'000 |
| Authorised: | | |
| Ordinary share of HK$0.01 each | | |
| As at 1 January 2019 and 31 March 2019 | 2,000,000,000 | 20,000 |
| Issued and fully paid: | | |
| Ordinary share of HK$0.01 each | | |
| As at 1 January 2019 | 498,232,000 | 4,982 |
| Share repurchased and cancelled (Note) | (5,172,000) | (51) |
| As at 31 March 2019 | 493,060,000 | 4,931 |

*Note:*

During the Reporting Period, 4,804,000 shares of the Company (the "**Shares**") were repurchased at an aggregate cost of approximately HK$687,000. These 4,804,000 Shares, together with the repurchase of 368,000 Shares at an aggregate cost of approximately HK$51,000 during the year ended 31 December 2018 (collectively, the "**Share Repurchase**") were cancelled on 30 January 2019. Therefore, the share repurchase reserve was adjusted by approximately HK$51,000 and the share capital and share premium were reduced by approximately HK$51,000 and approximately HK$687,000, respectively.

# 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 have 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.

For the three months ended 31 March 2019, the Group had been engaged in 10 public sector projects and eight private sector projects.

During the Reporting Period, we had secured two public sector projects and two private sector projects with the total contract sum of approximately HK$85,589,000, including 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 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 in meeting the abovementioned objectives for the Group during this fiscal year mainly because of a significant slowdown in infrastructure spending by the Hong Kong Government. 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 were 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 year ended 31 December 2018. As a result, the limited supply of new construction works for sub-contractors in the market and the increasing competition in the construction industry gradually affected the gross profit margin of the Group during the Reporting Period.

## 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 for 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 its future performance, which may vary from period to period in response to a variety of factors beyond the Group's 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.

## OUTLOOK OF TUNNEL CONSTRUCTION INDUSTRY IN HONG KONG

It is expected that the demand for tunnel construction services in Hong Kong will continue to grow in the foreseeable future. As a result, the Group will continue to focus on growing its tunnel construction services business and expects this to be its major growth driver and long term, sustainable source of revenue. 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 March 2019, the Highways Department of the Hong Kong Government (the "**Highways Department**") has awarded four construction contracts of Central Kowloon Route to the main 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 main contractors 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. During the Reporting Period, the Highways Department also invited tenders for Central Kowloon Route – Central Tunnel, the tender period for main contractors 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 awarded to the main contractors the access tunnel construction contract for Sha Tin Cavern Sewage Treatment Works in February 2019. This project will involve tunnel constructions using the drill and blast technique and is expected to be completed in December 2022.

Pursuant to the Chief Executive's 2018 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.

The delay of certain public infrastructure projects may have an impact on tunnel construction industry for the year ending 31 December 2019 and hence the revenue source of the Group accordingly. 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 the selected few subcontractors experienced in tunnel construction in Hong Kong and is well prepared to capitalise on the opportunities from these public infrastructure projects.

## FINANCIAL REVIEW

### *Revenue*

The Group's revenue decreased from approximately HK$43,944,000 for the three months ended 31 March 2018 to approximately HK$21,988,000 for the three months ended 31 March 2019, representing a decrease of approximately HK$21,956,000 or 50.0%. Such significant decrease in revenue was mainly attributable to the decrease in revenue recognition upon the substantial completion of major infrastructures projects in late 2018 and the lower revenue recognised for newly awarded public tunnel construction project of the Group during the Reporting Period as they had just commenced in March 2019, resulting in the decrease in revenue generated from public tunnel construction projects during the Reporting Period.

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$28,600,000 for the three months ended 31 March 2018 to approximately HK$5,065,000 for the three months ended 31 March 2019; (ii) a decrease in revenue generated from public sector projects – utility construction services and others from approximately HK$15,344,000 for the three months ended 31 March 2018 to approximately HK$10,400,000 for the three months ended 31 March 2019; and (iii) an increase in revenue generated from private sector projects to approximately HK$6,523,000 (for the three months ended 31 March 2018: nil).

### *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$37,706,000 for the three months ended 31 March 2018 to approximately HK$20,788,000 for the three months ended 31 March 2019, representing a decrease of approximately HK$16,918,000 or 44.9%. Such decrease was mainly due to: (i) a decrease in the construction materials and supplies from approximately HK$8,043,000 for the three months ended 31 March 2018 to approximately HK$6,099,000 for the three months ended 31 March 2019, representing a decrease of approximately HK$1,944,000 or 24.2%; (ii) a decrease in the staff costs from approximately HK$21,714,000 for the three months ended 31 March 2018 to approximately HK$10,278,000 for the three months ended 31 March 2019, representing a decrease of approximately HK$11,436,000 or 52.7%; and (iii) a decrease in the subcontracting charges from approximately HK$4,565,000 for the three months ended 31 March 2018 to approximately HK$1,117,000 for the three months ended 31 March 2019, representing a decrease of approximately HK$3,448,000 or 75.5%. 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 due to the decrease in number of workers during the Reporting Period.

### *Gross profit and gross profit margin*

The Group's gross profit decreased from approximately HK$6,238,000 for the three months ended 31 March 2018 to approximately HK$1,200,000 for the three months ended 31 March 2019, representing a decrease of approximately HK$5,038,000 or 80.8%. The gross profit margin was approximately 5.5% for the three months ended 31 March 2019 (for the three months ended 31 March 2018: approximately 14.2%).

Such substantial decrease in gross profit margin was mainly due to the generally lower profit margins of work performed on non-tunnel construction projects during the Reporting Period as compared to the tunnel construction projects in the corresponding period in 2018 and the increasing competition in the construction market which resulted in lower profit margins for the projects in 2019.

### *Administrative expenses*

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

The Group's administrative expenses increased from approximately HK$5,780,000 for the three months ended 31 March 2018 to approximately HK$5,930,000 for the three months ended 31 March 2019, representing an increase of approximately HK$150,000 or 2.6%. The staff costs and benefits for the three months ended 31 march 2019 was approximately HK$1,789,000 (for the three months ended 31 March 2018: approximately HK$2,095,000), representing a decrease of approximately HK$306,000 or 14.6%. The decrease in staff costs and benefits was mainly attributable to the decrease in the Group's administrative headcounts and staff quarters expenses. The Directors' remuneration increased from approximately HK$788,000 for the three months ended 31 March 2018 to approximately HK$812,000 for the three months ended 31 March 2019 due to an increase in the salaries payable to the executive Directors during the Reporting Period.

Due to the initial adoption of HKFRS 16, the Group recognised the depreciation of the right-of-use assets of approximately HK$434,000 for the three months ended 31 March 2019 (for the three months ended 31 March 2018: nil). Such expense was classified as the rent and rates for office and staff quarters for the three months ended 31 March 2018.

### *Finance costs*

The Group's finance costs mainly comprised interest expenses on lease liabilities during the Reporting Period.

The Group's finance costs increased from approximately HK$19,000 for the three months ended 31 March 2018 to approximately HK$28,000 for the three months ended 31 March 2019 due to the increase in the lease liabilities as a result of adoption of HKFRS 16 during the Reporting Period.

### *Income tax*

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

The income tax credit for the three months ended 31 March 2019 mainly resulted from the recognition of deferred tax during the Reporting Period.

### *Net Profit/Net Loss*

The Group's Net Loss for the three months ended 31 March 2019 was approximately HK$4,171,000 while the Group's Net Profit for the three months ended 31 March 2018 was approximately HK$269,000. The change from Net Profit for the three months ended 31 March 2018 to Net Loss for the three months ended 31 March 2019 was mainly due to the decrease in revenue and gross profit during the Reporting Period and the increasing competition in the construction market which resulted in lower profit margins for the projects in 2019 as discussed above.

### *Dividend*

The Board did not recommend the payment of any dividend for the three months ended 31 March 2019 (for the three months ended 31 March 2018: nil).

### *Contingent liabilities*

As at 31 March 2019, a number of labour claims was 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 claims is necessary.

As at 31 March 2019, the Group has given corporate guarantees of approximately HK$6,927,000 (for the three months ended 31 March 2018: HK$5,647,000) to two insurance companies on surety bonds at the amount of approximately HK$6,927,000 (for the three months ended 31 March 2018: HK$5,647,000) in relation to two public non-tunnel construction contracts (for the three months ended 31 March 2018: one) and a public tunnel construction contract (for the three months ended 31 March 2018: one) of the Group in the ordinary course of business. The surety bonds as at 31 March 2019 are expected to be released in accordance with the terms of the respective construction contracts. Save for the guarantees given on the surety bonds, the Group has no other material contingent liabilities as at 31 March 2019.

### *Foreign currency exposure*

The Group's reporting currency is Hong Kong dollar. During the three months ended 31 March 2019 and 2018, the Group's transactions were denominated in Hong Kong dollar. The Group had no material exposure to foreign currency risk.

### *Event after the Reporting Period*

There is no significant event subsequent to 31 March 2019 which would materially affect the Group's operating and financial performance.

## USE OF NET PROCEEDS FROM THE PLACING

The net proceeds received by the Company from the placing of the Shares on 22 February 2017, 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 March 2019, the net proceeds had been utilised as follows:

| | **Actual net proceeds** HK$ million | **Amount utilised as at 31 March 2019** HK$ million | **Balance** HK$ million |
|---|---|---|---|
| Machinery purchase | 16.9 | – | 16.9 |
| Additional prospective and/or experienced employees recruitment for our projects | 12.7 | 12.7 | – |
| 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 | 0.5 | 0.6 |
| Working capital and general corporate purposes | 3.0 | 3.0 | – |
| Total | 45.9 | 27.2 | 18.7 |

## OTHER INFORMATION

### 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.

### Purchase, Sales or Redemption of the Company's Listed Shares

During the Reporting Period, the Company repurchased a total of 4,804,000 Shares on the Stock Exchange. These 4,804,000 Shares, together with the repurchase of 368,000 Shares in December 2018, were cancelled by the Company on 30 January 2019. Details of the Share Repurchase are as follows:

| Month of Share Repurchase | Number of Shares repurchased | Price per Share | | Total price paid (exclusive of related expenses) |
|---|---|---|---|---|
| | | Highest | Lowest | |
| | | HK$ | HK$ | HK$ |
| December 2018 | 368,000 | 0.142 | 0.140 | 51,856 |
| January 2019 | 4,804,000 | 0.149 | 0.139 | 687,480 |
| | 5,172,000 | | | 739,336 |

The Share Repurchase 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' and Chief Executives' Interest and Short Positions in Shares, Underlying Shares and Debentures

As at 31 March 2019, 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 Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("**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 | 55.8% |
| Mr. Chuang Wei Chu | (b)/(c) | 103,000,000 | 34,500,000 | 137,500,000 | 275,000,000 | 55.8% |

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 (the "**Acting in Concert Deed**") entered into by the controlling shareholders of the Company ("**Controlling Shareholders**") 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 March 2019, none of the Directors and chief executives of the Company has 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 March 2019, none of the Directors and chief executives of the Company has any interests or short positions in any Shares, underlying Shares and debenture 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 March 2019, so far as is known to the Directors, the following persons' interests and short positions of the share capital and underlying Shares, 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 a spouse | 275,000,000 | 55.8% |
| Ms. Chuang Yau Ka | (b)/(c) | Beneficial owner and interest held jointly with another person | 275,000,000 | 55.8% |
| Mr. Ng Kwok Lun | (c) | Beneficial owner | 37,500,000 | 7.6% |

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 of the Company in a 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 of the Company in a unanimous manner. Ms. Chuang Yau Ka is therefore deemed to be interested in the Shares in the Company 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.

Save as disclosed above, as at 31 March 2019, the Directors were not aware of any person who had an interest or short positions in any Shares, underlying Shares and debenture of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO.

## 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 Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules.

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 of the Audit Committee is Mr. Lau Chun Fai Douglas.

The first quarterly report of the Group for the three months ended 31 March 2019 had been reviewed by the Audit Committee, which was of the opinion that such report have been prepared in compliance with the applicable accounting standards and the GEM Listing Rules.

## Competing Interests

As far as the Directors are aware of, during the three months ended 31 March 2019, none of the Directors and their respective associates (as defined in the GEM Listing Rules) or the controlling shareholders (as defined in the GEM Listing Rules) have any interests in a business which competed or may compete (directly or indirectly) with the business of the Group.

## 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 with a licensed bank in Hong Kong dated 22 November 2017 (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 do not remain as the single largest shareholder of the Company.

## Interest of the compliance adviser

As at the date of this 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.

By order of the Board
**GME Group Holdings Limited**
**Chuang Chun Ngok Boris**
*Chairman and executive Director*

Hong Kong, 7 May 2019

*As at the date of this report, the executive Directors are Mr. Chuang Chun Ngok Boris and Mr. Chuang Wei Chu and the independent non-executive Directors are Mr. Lam Man Bun Alan, Mr. Lau Chun Fai Douglas and Ir Ng Wai Ming Patrick.*