



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

INTERIM 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*)
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Authorised Representatives

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Mr. Sze Chun Kit

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Legal Advisers as to Hong Kong Laws

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Principal Bankers

Bank of China (Hong Kong) Limited

DBS Bank (Hong Kong) Limited

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FINANCIAL HIGHLIGHTS (UNAUDITED)

The board of Directors (the “**Board**”) of the Company hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2019 (the “**Reporting Period**”), together with the unaudited comparative figures for the corresponding period in 2018.

The Group’s revenue decreased from approximately HK\$80,688,000 for the six months ended 30 June 2018 to approximately HK\$34,650,000 for the six months ended 30 June 2019, representing a decrease of approximately HK\$46,038,000 or 57.1%. Such significant decrease in revenue for the Reporting Period was due to the substantial completion of major infrastructures projects in late 2018 and the delayed handover of the construction sites of certain newly awarded public construction projects to the Group during the second quarter of 2019.

The gross loss and gross loss margin of the Group for the six months ended 30 June 2019 was approximately HK\$1,272,000 and 3.7%, respectively (the gross profit and gross profit margin for the six months ended 30 June 2018: approximately HK\$11,928,000 and 14.8%, respectively). The reported gross loss and gross loss margin of the Group for the Reporting Period was 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, the aforementioned delay in sites handover and 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 six months ended 30 June 2019 was approximately HK\$10,438,000 while the Group’s profit and total comprehensive income for the period attributable to the owners of the Company (“**Net Profit**”) for the six months ended 30 June 2018 was approximately HK\$487,000. The change from Net Profit for the six months ended 30 June 2018 to Net Loss for the six months ended 30 June 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 six months ended 30 June 2019

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	5	12,662	36,744	34,650	80,688
Cost of services		(15,134)	(31,054)	(35,922)	(68,760)
Gross (loss)/profit		(2,472)	5,690	(1,272)	11,928
Other income		202	15	236	31
Administrative expenses		(5,234)	(5,294)	(11,164)	(11,074)
Finance costs		(30)	(23)	(58)	(42)
(Loss)/profit before income tax	6	(7,534)	388	(12,258)	843
Income tax	7	1,267	(170)	1,820	(356)
(Loss)/profit and total comprehensive (expenses)/ income for the period attributable to the owners of the Company		(6,267)	218	(10,438)	487
(Loss)/earnings per share					
– Basic and diluted (HK cents)	9	(1.3)	–*	(2.1)	0.1

* The amount representing the earnings per share (basic and diluted) for the three months ended 30 June 2018 was less than HK0.1 cents.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	5,931	7,752
Right-of-use assets	3	2,916	–
Deferred tax assets		2,128	308
		10,975	8,060
Current assets			
Contract assets	11	18,034	25,395
Trade and other receivables	12	19,532	25,622
Pledged bank deposits	13	8,149	8,097
Current tax recoverable		1,497	1,497
Cash and cash equivalents	13	18,721	20,089
		65,933	80,700
Current liabilities			
Trade and other payables	14	3,937	6,147
Lease liabilities	3	1,913	–
Obligations under finance leases		–	273
		5,850	6,420
Net current assets		60,083	74,280
Total assets less current liabilities		71,058	82,340
Non-current liabilities			
Lease liabilities	3	1,201	–
Obligations under finance leases		–	705
		1,201	705
NET ASSETS		69,857	81,635
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	4,931	4,982
Reserves		64,926	76,653
TOTAL EQUITY		69,857	81,635

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to the owners of the Company						Total HK\$'000 (Unaudited)
	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)	
For the six months ended 30 June 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	-	-	-	-	-	(10,438)	(10,438)
Share repurchased during the year ended 31 December 2018 and cancelled during the Reporting Period (Note 15)	(3)	(48)	51	-	-	-	-
Share repurchased and cancelled during the Reporting Period (Note 15)	(48)	(639)	-	-	-	-	(687)
Share repurchased during the Reporting Period and yet to be cancelled	-	-	(653)	-	-	-	(653)
As at 30 June 2019	4,931	91,486	(653)	90	(36,104)	10,107	69,857
For the six months ended 30 June 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	-	-	-	-	-	487	487
Final and special dividends paid	-	-	-	-	-	(6,000)	(6,000)
As at 30 June 2018	5,000	92,406	-	90	(36,104)	30,891	92,283

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Cash flows from operating activities		
(Loss)/profit before income tax expense	(12,258)	843
Adjustments for:		
Depreciation of property, plant and equipment	2,325	2,151
Depreciation of right-of-use assets	1,107	–
Finance costs	–	42
Gain on disposal of property, plant and equipment	(33)	–
Interest Income	(28)	–
Operating (loss)/profit before working capital changes	(8,887)	3,036
Decrease in amounts due from customers for contract work	–	546
Decrease/(increase) in contract assets	7,361	(546)
Decrease in trade and other receivables	6,118	1,763
Decrease in trade and other payables	(2,210)	(3,720)
Cash generated from operations	2,382	1,079
Income tax paid, net	–	(1,099)
Net cash generated from/(used in) operating activities	2,382	(20)
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,351)	(604)
Proceeds from sales of property, plant and equipment	46	–
Net cash used in investing activities	(1,305)	(604)

	Six months ended	
	30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Repayment of bank borrowing, secured	–	(3,946)
Final and special dividends paid to the owners of the Company	–	(6,000)
Increase in pledged bank deposits	(52)	(65)
Share repurchased	(1,340)	–
Payment of lease liabilities	(1,053)	–
Interest paid	–	(45)
Repayment of obligations under finance leases	–	(169)
Net cash used in financing activities	(2,445)	(10,225)
Net decrease in cash and cash equivalents	(1,368)	(10,849)
Cash and cash equivalents at beginning of the period	20,089	26,665
Cash and cash equivalents at end of the period	18,721	15,816

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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 six months ended 30 June 2019 (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”), Hong Kong Accounting Standards (“**HKAS**”) and Interpretations (hereinafter collectively referred to as the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosures required by the GEM Listing Rules.

The Interim 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 HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The Interim 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 Interim Financial Statements have been prepared under the historical cost basis.

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

The Interim 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 Interim 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 Interim 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 Leases (“**HKFRS 16**”) supersedes HKAS 17 Leases (“**HKAS 17**”) 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 than 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.

3. CHANGE IN THE ACCOUNTING POLICIES (Continued)

HKFRS 16 – Leases (Continued)

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The lease liability should be recognised at the present value of the lease payments that are not paid at the date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g. a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

3. CHANGE IN THE ACCOUNTING POLICIES (Continued)

HKFRS 16 – Leases (Continued)

The adoption of HKFRS 16 did not result in a significant impact on the Group's results but certain portion of these lease commitments was recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities at 1 January 2019. The Group has transitioned to HKFRS 16 in accordance with the modified retrospective approach and recognised the cumulative effect of initial application to opening retained earnings at 1 January 2019 without restating the comparative information.

The Group elected to use the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17. Therefore, the Group did not reassess whether a contract is, or contains, a lease which already existed prior to the date of initial application. Therefore, the definition of a lease under HKFRS 16 was applied only to the contracts entered into or changed on or after 1 January 2019. The Group also elected the practical expedients to apply a single discount rate to a portfolio of leases with reasonably similar characteristics on transition and excluded the initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

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 1 January 2019. The Group applied the practical expedient not to recognise right-of-use assets and lease liabilities in respect of land and building that had a lease term of 12 months or less at 1 January 2019. The Group recognises the lease payments associated with these leases as the expenses related to short-term leases 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 1 January 2019 shall be the carrying amount of the lease asset and lease liabilities immediately before that date measured applying HKAS 17.

3. CHANGE IN THE ACCOUNTING POLICIES (Continued)

HKFRS 16 – Leases (Continued)

The reconciliation of operating leases commitment and obligations under finance leases disclosed as at 31 December 2018 to lease liabilities at 1 January 2019 is set out below:

	HK\$'000 (Audited)
Operating lease commitments disclosed as at 31 December 2018	896
Less: Recognition exemption – short-term leases	(455)
Gross operating lease obligations	441
Discounting	(20)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	421
Add: Obligations under finance leases under HKAS 17 as at 31 December 2018	978
Lease liabilities at 1 January 2019	1,399
Analysed as:	
Current portion of lease liabilities	636
Non-current portion of lease liabilities	763
	1,399

3. CHANGE IN THE ACCOUNTING POLICIES (Continued)

HKFRS 16 – Leases (Continued)

The carrying amount of right-of-use assets at 1 January 2019 comprises the following:

	HK\$'000 (Unaudited)
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	421
Amounts included in property, plant and equipment under HKAS 17	
– Assets previously under finance leases	832
Right-of-use assets at 1 January 2019	1,253
By class:	
Land and buildings	421
Motor vehicles	824
Office equipment	8
	1,253

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. The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019 due to the impact of the transition to HKFRS 16. Line items that were not affected by the changes have not been included.

Condensed consolidated statement of financial position as at 1 January 2019	As originally stated HK\$'000 (Unaudited)	Impact of transition to HKFRS 16 HK\$'000 (Unaudited)	As adjusted HK\$'000 (Unaudited)
Property, plant and equipment	7,752	(832)	6,920
Right-of-use assets	–	1,253	1,253
Finance lease obligations	(978)	978	–
Lease liabilities	–	(1,399)	(1,399)
Net assets	6,774	–	6,774

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.

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		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Customer B	5,654	17,415	10,831	34,992
Customer C	1,833	7,539	4,778	16,082
Customer K	N/A	1,500	N/A	8,718
Customer L	N/A	7,192	N/A	15,250
Customer M	966	N/A	3,321	N/A
Customer P	-	-	6,500	-
Customer R	966	N/A	3,321	N/A

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 at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Auditor's remuneration	189	186	378	372
Depreciation of				
– Property, plant and equipment	1,098	1,125	2,325	2,151
– Right-of-use assets	673	–	1,107	–
Expenses related to short-term leases	102	–	257	–
Operating lease rentals in respect of:				
– Land and buildings	–	588	–	1,172
Finance costs:				
– Interest on bank borrowing, secured	–	9	–	19
– Interest on finance leases	–	14	–	23
– Interest on lease liabilities	30	–	58	–
Employee benefit expenses, including Directors' remuneration	9,408	17,735	22,287	42,332

7. INCOME TAX

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

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Current tax – Hong Kong profits tax – charge for the Reporting Period	–	219	–	476
Deferred tax	(1,267)	(49)	(1,820)	(120)
Income tax	(1,267)	170	(1,820)	356

Hong Kong profits tax is calculated at 16.5% (for the six months ended 30 June 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 six months ended 30 June 2019 (for the six months ended 30 June 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 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
(Loss)/earnings:				
(Loss)/earnings for the purpose of basic (loss)/earnings per share	(6,267)	218	(10,438)	487
	Number of shares '000	Number of shares '000	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of earnings per share (Note)	493,060	500,000	493,889	500,000

Note:

The weighted average number of ordinary shares in issue during the six months ended 30 June 2019 was calculated based on the number of ordinary shares in issue after the cancellation of the ordinary shares repurchased by the Company during the Reporting Period. Details of the movement of ordinary shares of the Company (the “**Shares**”) 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 six months ended 30 June 2019 and 2018.

10. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group acquired property, plant and equipment amounting to approximately HK\$1,351,000 (for the six months ended 30 June 2018: approximately HK\$1,184,000).

11. CONTRACT ASSETS

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Contract assets arising from:		
Construction services	546	998
Retention receivables from contracts with customers within the scope of HKFRS 15	17,563	24,472
Less: impairment	(75)	(75)
	18,034	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.

11. CONTRACT ASSETS (Continued)

The expected timing of recovery or settlement for contract assets as at 30 June 2019 and 31 December 2018 is as follows:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Within one year	17,674	22,973
More than one year and less than two years	360	2,422
Total contract assets	18,034	25,395

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses (“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.

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

	At 30 June 2019 % (Unaudited)	At 31 December 2018 % (Audited)
Expected credit losses rate	0.4	0.3

	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Gross carrying amount	18,034	25,395
Expected credit losses	75	75

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Trade receivables (Note (a))	14,578	19,682
Less: impairment	(228)	(228)
	14,350	19,454
Prepayments and deposits (Note (b))	5,182	6,168
	19,532	25,622

Notes:

- (a) Trade receivables were mainly derived from provision of underground construction services and are 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:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Less than 1 month	10,901	15,204
1 to 3 months	2,575	3,276
More than 3 months but less than one year	401	–
More than one year	473	974
	14,350	19,454

- (b) Prepayments and deposits as at 30 June 2019 and 31 December 2018 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.

13. CASH AND CASH EQUIVALENTS

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Cash and bank balances	18,721	20,089
Short term deposits	8,149	8,097
	26,870	28,186
Less: pledged bank deposits (Note (a))	(8,149)	(8,097)
Cash and cash equivalents (Note (b))	18,721	20,089

Notes:

- (a) The Group pledged deposit of approximately HK\$8,149,000 as a security for its banking facility (for the year ended 31 December 2018: approximately HK\$8,097,000). The effective interest rate of the pledged bank deposits was 0.8% per annum as at 30 June 2019 (as at 31 December 2018: 0.8% per annum).
- (b) Cash and cash equivalents of the Group represent cash at banks and in hand.

14. TRADE AND OTHER PAYABLES

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Trade payables (Note (a))	1,311	1,439
Other payables and accruals (Note (b))	2,626	4,708
	3,937	6,147

Notes:

- (a) An ageing analysis of trade payables, based on the invoice dates, is as follows:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Current or less than 1 month	908	617
1 to 3 months	383	754
More than 3 months but less than one year	20	68
	1,311	1,439

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

- (b) Other payables are non-interest bearing and have average payment terms of one to three months.

15. SHARE CAPITAL

	The Company	
	Number of shares	Amount HK\$'000
Authorised:		
Ordinary share of HK\$0.01 each		
As at 31 December 2018, 1 January 2019 and 30 June 2019	2,000,000,000	20,000
Issued and fully paid:		
Ordinary share of HK\$0.01 each		
As at 31 December 2018 and 1 January 2019	498,232,000	4,982
Share repurchased during the year ended 31 December 2018 and cancelled during the Reporting Period (Note (a))	(368,000)	(3)
Share repurchased and cancelled during the Reporting Period (Note (b))	(4,804,000)	(48)
As at 30 June 2019 (unaudited)	493,060,000	4,931

Notes:

- (a) During the year ended 31 December 2018, 368,000 Shares were repurchased on the Stock Exchange at an aggregate cost of approximately HK\$51,000 (excluding the brokerage fees and other expenses). These Shares 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\$3,000 and approximately HK\$48,000, respectively.
- (b) During the Reporting Period, 9,356,000 Shares were repurchased on the Stock Exchange at an aggregate cost of approximately HK\$1,340,000 (excluding the brokerage fees and other expenses) of which, 4,804,000 Shares of these Shares were cancelled on 30 January 2019. Therefore, the share capital and share premium were reduced by approximately HK\$48,000 and approximately HK\$639,000, respectively.

16 MAJOR NON-CASH TRANSACTIONS

The Group entered into lease agreements in respect of (i) land and buildings; and (ii) office equipment which were classified as the right-of-use assets under HKFRS 16 with a capital value at the inception of the leases of approximately (i) HK\$2,696,000; and (ii) HK\$74,000, respectively during the six months ended 30 June 2019. During the year ended 31 December 2018, the Group entered into a finance lease agreement to acquire a motor vehicle which was classified as the property plant and equipment as at 31 December 2018 under HKAS 17 and subsequently reclassified as the right-of-use asset at 1 January 2019 under HKFRS 16 with a capital value at the inception of the lease of approximately HK\$528,000.

17. CONTINGENT LIABILITIES

(a) Contingent liabilities in respect of legal claims

As at 30 June 2019, 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 these claims is necessary.

17. CONTINGENT LIABILITIES (Continued)

(b) Guarantee

The Group provided guarantee to insurance companies in respect of the followings:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Surety bonds issued in favour of customers (Note)	6,927	5,647
	6,927	5,647

Note:

As at 30 June 2019, surety bonds at an amount of approximately HK\$6,927,000 were given by insurance companies in favour of the Group's customers (as at 31 December 2018: approximately HK\$5,647,000) as security for the due performance and observance of the Group's obligations under the subcontracts entered into between the Group and its customers. If the Group fails to provide satisfactory performance to its customers to whom the surety bonds have been given, the customers may demand the insurance companies to pay to them the sum or sums stipulated in such demand. The Group will then become liable to compensate the insurance companies accordingly pursuant to the guarantee granted by the Group to such insurance companies. The surety bonds will be released upon completion of the subcontract works for the customers.

The Directors are of the opinion that the amount of approximately HK\$6,927,000 was the maximum exposure to the Group and it is not probable that the insurance companies would claim against the Group for losses in respect of the guaranteed contracts as it is unlikely that the Group will be unable to fulfil the performance requirements of the relevant contracts (as at 31 December 2018: approximately HK\$5,647,000). Accordingly, no provision for the Group's obligations under the guarantee has been made as at 30 June 2019.

The controlling shareholders of the Company ("**Controlling Shareholders**") have entered into a deed of indemnity on 10 February 2017 whereby they have agreed, subject to the terms and conditions therein, to indemnify the Group, among other matters, all losses and liabilities arising from any litigations against the Group prior to the placing of the Shares on 22 February 2017 (the "**IPO Placing**").

18. RELATED PARTY TRANSACTIONS

(a) Transactions

The Group did not have any related party transactions during the Reporting Period (During the six months ended 30 June 2018: nil).

(b) 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 Reporting Period are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Fees	300	300	600	600
Salaries and benefits	504	480	1,008	960
Pension scheme contributions	7	7	15	15
	811	787	1,623	1,575

19. CAPITAL COMMITMENTS

As at 30 June 2019, the Group did not have any capital commitments (as at 31 December 2018: nil).

20. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board on 8 August 2019.

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 six months ended 30 June 2019, the Group had been engaged in 12 public sector projects (for the six months ended 30 June 2018: 13) and 8 private sector projects (for the six months ended 30 June 2018: nil). The Group secured four public sector projects and two private sector projects with the total contract sum of approximately HK\$101,436,000 during the Reporting Period (the “**Newly Awarded Contracts**”). The remaining contract value of the Newly Awarded Contracts to be recognised after 30 June 2019 was approximately HK\$98,121,000. 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.

Due to the delay of the funding approvals from the Legislative Council of the Hong Kong Special Administrative Region (“Legco”) in late 2017 and the subsequent slowdown in infrastructure spending by the Hong Kong Government, 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.

Other than tunnel works, the Group has also participated in several tenders in earthworks and bridge works in this Reporting Period. The Group considers that diversification is necessary under the current market condition, and continues to explore opportunity in other field of the construction industry.

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 operates solely in Hong Kong and derived all its income in Hong Kong during the Reporting Period. Accordingly, the Group’s business, financial results and prospects are affected by policies of the Hong Kong Government, political environment, economic and legal development in Hong Kong. In particular, events such as demonstrations and protests may affect the budgeting process for public infrastructure and construction projects of the Hong Kong Government and the funding approval from the Legco. 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. Besides, adverse weather conditions, natural disasters, potential wars, terrorist attacks, riots and other disasters which are beyond the Group's control may reduce the number of workdays and therefore hinder the Group's operations and may incur additional operational costs. These events may also materially and adversely affect the economic condition in Hong Kong and in turn the Group's business and financial results. Potential wars, riots or terrorist attacks may also cause uncertainties to the economic condition of Hong Kong. Therefore, the profit margin may also vary from project to project due to the aforementioned factors.

OUTLOOK OF TUNNEL AND 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 the date of this report, the Highways Department of the Hong Kong Government has awarded six construction contracts of Central Kowloon Route to the main contractors with a total value of approximately HK\$23.2 billion, which included the construction works of (i) the shaft at Ho Man Tin; (ii) the tunnels at Kai Tak East and West; (iii) the tunnels at Yau Ma Tei East and West; and (iv) the central tunnel.

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 with a total value of approximately HK\$2 billion. 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 was primarily generated from public sector projects for the provision of (i) tunnel construction services; and (ii) utility construction services and others for the six months ended 30 June 2019. The following table sets out the breakdown of the Group's revenue by project types:

	For the six months ended 30 June			
	2019 HK\$'000 (Unaudited)	2019 % of total revenue (Unaudited)	2018 HK\$'000 (Unaudited)	2018 % of total revenue (Unaudited)
Private sector projects	6,877	19.8	–	–
Public sector projects				
– Tunnel construction services	10,181	29.4	46,183	57.2
– Utility construction services and others	17,592	50.8	34,505	42.8
Sub-total	27,773	80.2	80,688	100.0
Total	34,650	100.0	80,688	100.0

The Group's revenue decreased from approximately HK\$80,688,000 for the six months ended 30 June 2018 to approximately HK\$34,650,000 for the six months ended 30 June 2019, representing a decrease of approximately HK\$46,038,000 or 57.1%. Such significant decrease in revenue for the Reporting Period was due to the substantial completion of major infrastructures projects in late 2018 and the delayed handover of the construction sites of certain newly awarded public construction projects to the Group during the second quarter of 2019.

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\$68,760,000 for the six months ended 30 June 2018 to approximately HK\$35,922,000 for the six months ended 30 June 2019, representing a decrease of approximately HK\$32,838,000 or 47.8%. Such decrease was mainly due to: (i) a decrease in the construction materials and supplies from approximately HK\$17,794,000 for the six months ended 30 June 2018 to approximately HK\$10,497,000 for the six months ended 30 June 2019, representing a decrease of approximately HK\$7,297,000 or 41.0%; (ii) a decrease in the staff costs from approximately HK\$36,929,000 for the six months ended 30 June 2018 to approximately HK\$17,303,000 for the six months ended 30 June 2019, representing a decrease of approximately HK\$19,626,000 or 53.1%; and (iii) a decrease in the subcontracting charges from approximately HK\$7,921,000 for the six months ended 30 June 2018 to approximately HK\$1,874,000 for the six months ended 30 June 2019, representing a decrease of approximately HK\$6,047,000 or 76.3%. 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 loss and gross loss margin)/ gross profit and gross profit margin

The gross loss and gross loss margin of the Group for the six months ended 30 June 2019 was approximately HK\$1,272,000 and 3.7%, respectively (the gross profit and gross profit margin for the six months ended 30 June 2018: approximately HK\$11,928,000 and 14.8%, respectively). The reported gross loss and gross loss margin of the Group for the Reporting Period was 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, the aforementioned delay in sites handover and increasing competition in the construction market which resulted in lower profit margins for the projects in 2019.

Administrative and other expenses

The Group's administrative expenses mainly comprised (i) staff costs and benefits; (ii) Directors' remuneration; (iii) depreciation expenses; (iv) office expenses; and (v) professional fees.

The Group's administrative expenses increased from approximately HK\$11,074,000 for the six months ended 30 June 2018 to approximately HK\$11,164,000 for the six months ended 30 June 2019, representing an increase of approximately HK\$90,000 or 0.8%. The staff costs and benefits for the six months ended 30 June 2019 was approximately HK\$3,361,000 (for the six months ended 30 June 2018: approximately HK\$3,828,000), representing a decrease of approximately HK\$467,000 or 12.2%. The decrease in staff costs and benefits was mainly attributable to the decrease in the Group's administrative headcounts and the staff quarters expenses being classified as the depreciation of the right-of-use assets under HKFRS 16 at 1 January 2019. The Directors' remuneration increased from approximately HK\$1,575,000 for the six months ended 30 June 2018 to approximately HK\$1,623,000 for the six months ended 30 June 2019, representing an increase of approximately HK\$48,000 or 3.0%. Such increase was due to an increase in the salaries payable to the executive Directors during the Reporting Period. The office expenses decreased from approximately HK\$874,000 for the six months ended 30 June 2018 to approximately HK\$327,000 for the six months ended 30 June 2019, representing a decrease of approximately HK\$547,000 or 62.6%. Such decrease was mainly due to the rental of the office premise being classified as the depreciation of the right-of-use assets under HKFRS 16 at 1 January 2019. The professional fees decreased from approximately HK\$977,000 for the six months ended 30 June 2018 to approximately HK\$934,000 for the six months ended 30 June 2019, representing a decrease of approximately HK\$43,000 or 4.4%.

Due to the adoption of HKFRS 16, the Group recognised the depreciation of the right-of-use assets of approximately HK\$1,107,000 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil). Such expenses were previously classified respectively as the rental expense under office expenses, the staff quarters expenses under staff costs and benefits and the depreciation of the motor vehicles under the depreciation of property, plant and equipment for the six months ended 30 June 2018.

Finance costs

The Group's finance costs increased from approximately HK\$42,000 for the six months ended 30 June 2018 to approximately HK\$58,000 for the six months ended 30 June 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 six months ended 30 June 2019 mainly resulted from the recognition of deferred tax during the Reporting Period.

(Net Loss)/Net Profit

The Group's Net Loss for the six months ended 30 June 2019 was approximately HK\$10,438,000 while the Group's Net Profit for the six months ended 30 June 2018 was approximately HK\$487,000. The change from Net Profit for the six months ended 30 June 2018 to Net Loss for the six months ended 30 June 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 does not recommend the payment of any dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

Liquidity, financial resources and funding

As at 30 June 2019, the Group's cash and cash equivalents and pledged bank deposits amounted to approximately HK\$18,721,000 (as at 31 December 2018: approximately HK\$20,089,000) and approximately HK\$8,149,000 (as at 31 December 2018: HK\$8,097,000), respectively, which were denominated in Hong Kong dollar. The decrease in cash and cash equivalents was mainly due to the net cash used in financing activities during the Reporting Period.

As at 30 June 2019, 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\$8,149,000 (as at 31 December 2018: approximately HK\$8,097,000); 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 30 June 2019, due to the adoption of HKFRS 16, the lease liabilities amounted to approximately HK\$3,114,000, which represented the leases arrangement of the Group's office equipment, land and buildings and motor vehicles and the recognition of the principal portion of the cash repayments of the right-of-use assets.

The Group's gearing ratio, which is calculated by total debts divided by total equity, increased from approximately 7.0% as at 31 December 2018 to approximately 8.2% as at 30 June 2019 due to the decrease in total equity during the Reporting Period.

Capital structure

As at 30 June 2019, the capital structure of the Company comprised issued share capital and reserves.

Commitments

As at 30 June 2019, the capital commitment of the Group was nil (as at 31 December 2018: nil).

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 six months ended 30 June 2019.

Future plans for material investments and capital assets

Save as disclosed in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 22 February 2017 (the "**Prospectus**"), the Group did not have other plans for material investment or capital assets as at 30 June 2019.

Contingent liabilities

As at 30 June 2019, 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 these claims is necessary.

As at 30 June 2019, the Group has given guarantee to insurance companies in respect of surety bonds issued by such insurance company in favour of the Group's customers at an amount of approximately HK\$6,927,000 (as at 31 December 2018: approximately HK\$5,647,000) in relation to three public construction contracts of the Group in the ordinary course of business (as at 31 December 2018: two). The surety bonds as at 30 June 2019 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.

Foreign currency exposure

The Group's reporting currency is Hong Kong dollar. During the six months ended 30 June 2019 and 2018, the Group's transactions were denominated in Hong Kong dollar. The Group had no material exposure to foreign currency risk.

Charge on the Group's assets

As at 30 June 2019, the Group had pledged bank deposits of approximately HK\$8,149,000 (as at 31 December 2018: approximately HK\$8,097,000) to secure the revolving term loan bank facility. Also, the Group had provided cash collateral of HK\$1,010,000 to two insurance companies in Hong Kong for the provision of the surety bonds for three public construction contracts as at 30 June 2019 (as at 31 December 2018: HK\$560,000). For details of the surety bonds, please refer to the paragraph headed "Contingent liabilities" above. Saved as the foregoing, the Group did not have any charges on its assets.

Information on employees

As at 30 June 2019, the Group had 121 employees which comprises management, technical staff, administration, accounting and human resources staff and workers (as at 31 December 2018: 149 employees; as at 30 June 2018: 263 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\$22,287,000 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: approximately HK\$42,332,000), which was mainly due to the combined effects of (i) a decrease in staff costs and benefits in the administrative expenses due to the reduction of administrative headcounts and additional executive Directors' salaries payable by the Company; (ii) the staff quarters expense being recognised as the depreciation of the right-of-use assets as discussed; and (iii) a decrease in staff costs in cost of services due to the 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.

Event after the Reporting Period

There is no significant event subsequent to 30 June 2019 and up to the date of this report which would materially affect the Group's operating and financial performance.

Comparison between business objectives and 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 30 June 2019.

Business objectives

Actual business progress up to 30 June 2019

To further develop the Group's reputation as a quality provider of integrated tunnel construction services.

The Group 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 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 utilised part of the net proceeds from the 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 late 2019 to cope with the latest business expansion.

OTHER INFORMATION

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\$11.9 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\$6.1 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 30 June 2019, the net proceeds had been utilised as follows:

	Actual net proceeds HK\$ million	Amount utilised as at 30 June 2019 HK\$ million	Balance HK\$ million
Machinery purchase	11.9	–	11.9
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	6.1	0.5	5.6
Working capital and general corporate purposes	3.0	3.0	–
Total	45.9	27.2	18.7

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 of the Company (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 9,356,000 Shares on the Stock Exchange of which, 4,804,000 Shares of these Shares, together with 368,000 Shares repurchased on the Stock Exchange during the year ended 31 December 2018 (the "Share Repurchase") were subsequently cancelled by the Company on 30 January 2019 (the "Shares Cancellation"). The remaining 4,552,000 Shares repurchased during the Reporting Period were subsequently cancelled on 22 July 2019. Details of those transactions are as follows:

Share Repurchase and Shares Cancellation during the Reporting Period:

Month of Share Repurchase	Number of Shares repurchased	Price per Share		Total price paid (excluding the brokerage fees and other expenses) HK\$
		Highest HK\$	Lowest 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

Share Repurchase and Shares Cancellation on 22 July 2019:

Month of Share Repurchase	Number of Shares repurchased	Price per Share		Total price paid (excluding the brokerage fees and other expenses) HK\$
		Highest HK\$	Lowest HK\$	
May 2019	2,800,000	0.139	0.121	378,000
June 2019	1,752,000	0.174	0.141	274,952
	4,552,000			652,952

The Share Repurchase during the Reporting Period was effected by the Directors, pursuant to the general mandates from the Shareholders granted at the annual general meeting of the Company held on 2 May 2019 and the 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 30 June 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	Percentage of Company's issued share capital	
					Total	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 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 Cancellation on 30 January 2019.

As at 30 June 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 30 June 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 30 June 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	Percentage of Company's issued share capital	
			Total	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 Cancellation on 30 January 2019.

Save as disclosed above, as at 30 June 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.

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 Reporting Period up to the date of this report (**"Relevant Period"**).

Audit Committee

The Group has established an 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 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 interim report of the Group for the six months ended 30 June 2019 had been reviewed by the Audit Committee, which was of the opinion that such interim report has been prepared in compliance with the applicable accounting standards and the GEM Listing Rules.

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

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the Relevant Period.

Share Option Scheme

The Company has not granted or issued any option or adopted any share option scheme up to 30 June 2019.

Competing Interests

As far as the Directors are aware of, during the six months ended 30 June 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 this report in respect of the Factoring Agreement, which contain covenants requiring specific performance obligations 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.

Corporate Governance

During the Relevant Period, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules.

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, 8 August 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.