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)

(1) ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017; AND (2) CHANGE OF USE OF NET PROCEEDS

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**", each a "**Director**") of GME Group Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

ANNUAL RESULTS

The board of Directors (the "**Board**") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017, together with the comparative audited figures for the year ended 31 December 2016, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	*5*	**157,121**	159,127
Cost of services		**(129,214)**	(116,350)
Gross profit		**27,907**	42,777
Other income		**328**	571
Administrative and other expenses		**(28,439)**	(20,097)
Finance costs		**(94)**	(501)
(Loss)/profit before income tax expense	*6*	**(298)**	22,750
Income tax expense	*7*	**(1,364)**	(5,042)
(Loss)/profit for the year		**(1,662)**	17,708
(Loss)/earnings per share			
– Basic and diluted *(HK cents)*	*9*	**(0.34)**	4.72

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**9,150**	8,776
Current assets			
Amounts due from customers for contract work		**546**	546
Trade and other receivables	*10*	**68,207**	55,884
Pledged bank deposits		**8,000**	–
Current tax recoverable		**1,951**	–
Cash and cash equivalents		**26,665**	2,104
		105,369	58,534
Current liabilities			
Trade and other payables	*11*	**11,153**	15,520
Bank overdrafts		**–**	8,772
Bank borrowing, secured		**3,946**	–
Obligations under finance leases		**178**	63
Current tax liabilities		**–**	1,787
		15,277	26,142
Net current assets		**90,092**	32,392
Total assets less current liabilities		**99,242**	41,168
Non-current liabilities			
Obligations under finance leases		**524**	146
Deferred tax liabilities		**922**	1,066
		1,446	1,212
NET ASSETS		**97,796**	39,956
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**5,000**	–
Reserves		**92,796**	39,956
TOTAL EQUITY		**97,796**	39,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

The shares of the Company (the "**Shares**") were listed on GEM of the Stock Exchange ("**IPO Placing**") on 22 February 2017 ("**Listing Date**").

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

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The adoption of these amendments has no material impact on the Group's financial statements.

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

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

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] *Effective for annual periods beginning on or after 1 January 2018*

[2] *Effective for annual periods beginning on or after 1 January 2019*

[3] *The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.*

3. GROUP REORGANISATION AND BASIS OF PRESENTATION AND PREPARATION

Prior to the group reorganisation (the "**Group Reorganisation**"), which took place in October 2016, Good Mind Engineering Limited ("**GMEHK**") was collectively controlled by a number of shareholders comprising Mr. Chuang Chun Ngok Boris, Mr. Chuang Wei Chu, Ms. To Ying Ping (spouse of Mr. Chuang Wei Chu) and Ms. Chuang Yau Ka (together referred to as the "**Controlling Shareholders**") since 30 May 2002. After the Group Reorganisation, they collectively controlled the Group under contractual agreement, Mr. Chuang Chun Ngok Boris and Ms. Chuang Yau Ka are the children of Mr. Chuang Wei Chu and Ms. To Ying Ping.

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

The Group Reorganisation also involved inserting new holdings entities at the top of an existing company and has not resulted in any change of economic substances and were controlled by the Controlling Shareholders before and immediately after the Group Reorganisation.

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

Accordingly, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2016 have been prepared using the principles of merger accounting as if the current group structure had been in existence throughout those years, or since their respective dates of incorporation or establishment of the combining companies, whichever was shorter. The consolidated statement of financial position of the Group as at 31 December 2016 have been prepared to present the assets and liabilities of the companies now comprising the Group at that date, as if the current group structure had been in existence as at that date. The assets and liabilities of the Group were combined using their carrying values. All significant intra-group transactions and balances have been eliminated on consolidation.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules.

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

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

4. SEGMENT INFORMATION

Operating segments

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

Geographical information

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

Information about major customers

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

	2017	2016
	HK$'000	*HK$'000*
Customer B	**18,822**	87,031
Customer C	**42,988**	56,881
Customer K	**76,868**	N/A

N/A Revenue from the customer during the year ended 31 December 2016 did not exceed 10% of the Group's revenue.

5. REVENUE

The Group's revenue represents amount received and receivable from contract work performed during the years ended 31 December 2017 and 2016.

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

6. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

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

	2017	2016
	HK$'000	*HK$'000*
Auditor's remuneration	**588**	550
Listing expense (included in administrative and other expenses)	**6,338**	7,666
Loss on disposal of property, plant and equipment	**26**	69
Depreciation of property, plant and equipment	**4,277**	2,378
Operating lease rentals in respect of:		
– Land and buildings	**1,795**	1,048
Finance costs:		
– Interest on borrowing wholly repayable within five years	**–**	113
– Interest on bank overdrafts	**72**	379
– Interest on bank borrowing, secured	**3**	–
– Interest on finance leases	**19**	9
Employee benefit expenses, including Directors' remuneration	**92,286**	88,393

7. INCOME TAX EXPENSE

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

	2017	2016
	HK$'000	*HK$'000*
Current tax – Hong Kong profits tax		
– charge for the year	**1,508**	4,301
Deferred tax	**(144)**	741
Income tax expense	**1,364**	5,042

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

8. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2016.

At a meeting held on 23 March 2018, the Directors of the Company recommended a final dividend of HK0.4 cents per ordinary share and special dividend of HK0.8 cents per ordinary share, in aggregate amounting to HK$2,000,000 and HK$4,000,000, respectively, for the year ended 31 December 2017, and the proposal will be submitted for formal approval by the shareholders at the forthcoming annual general meeting to be held on 3 May 2018.

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:

	2017	2016
	HK$'000	*HK$'000*
(Loss)/earnings:		
(Loss)/earnings for the purpose of basic (loss)/earning per share	**(1,662)**	17,708
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**482,192**	375,000

Note: Weighted average of 375,000,000 ordinary shares for the year ended 31 December 2016, being the number of shares in issue immediately after the completion of capitalisation issue of shares as defined in Note 12 to the consolidated financial statements, are deemed to have been issued throughout the year ended 31 December 2016.

10. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables *(Note)*	**40,312**	31,857
Retention receivables	**22,593**	17,231
Prepayments and deposits	**5,302**	6,796
	68,207	55,884

Note:

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

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

	2017	2016
	HK$'000	*HK$'000*
Less than 1 month	**27,275**	31,531
1 to 3 months	**12,674**	33
More than 3 months but less than one year	**15**	268
More than one year	**348**	25
	40,312	31,857

11. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables *(Note)*	**2,097**	3,695
Other payables and accruals	**9,056**	11,825
	11,153	15,520

Note:

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

	2017	2016
	HK$'000	*HK$'000*
Current or less than 1 month	**1,286**	1,659
1 to 3 months	**712**	2,036
More than 3 months but less than one year	**99**	–
More than one year	**–**	–
	2,097	3,695

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

12. SHARE CAPITAL

	The Company	
	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary share of HK$0.01 each		
At 18 January 2016 (the "**date of incorporation**"), 31 December 2016 and 1 January 2017 *(Note (a))*	38,000,000	380
Increase in authorised share capital on 10 February 2017 *(Note (b))*	1,962,000,000	19,620
As at 31 December 2017	2,000,000,000	20,000
Issued and fully paid:		
Ordinary share of HK$0.01 each		
At the date of incorporation	1	–
Issue of share upon Group Reorganisation *(Note (d))*	1,799	–
As at 31 December 2016 and 1 January 2017	1,800	–
Capitalisation issue of shares *(Note (e))*	374,998,200	3,750
Issue of new shares under placing *(Note (f))*	125,000,000	1,250
As at 31 December 2017	500,000,000	5,000

Notes:

(a) The Company was incorporated in the Cayman Islands on 18 January 2016 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each.

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

(c) During the year ended 31 December 2016, the share capital of the Group represented the aggregate amount of the share capital of the subsidiaries and was transferred to other reserve upon the completion of the Group Reorganisation on 17 October 2016.

(d) On 17 October 2016, Mr. Chuang Wei Chu, Mr. Chuang Chun Ngok Boris, Ms. To Ying Ping, Ms. Chuang Yau Ka, Mr. Ng Kwok Lun, Mr. Lo Tak Leung and Mr. Ho John Kwun Fung, collectively as vendors transfer all of their shares in GMEHK to GME International Limited ("**GMEBVI**") in consideration for the Company, being the holding Company of GMEBVI and the legal and beneficial owner of the entire issued share capital of GMEBVI, issued and allotted, credited as fully paid, 540, 539, 180, 180, 180, 90 and 90 shares to the vendors, respectively. As a result, GMEHK became a direct wholly-owned subsidiary of GMEBVI.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

Since 2014, the Group has been focusing on the development of a complete suite of tunnel construction services, which has laid a solid foundation for the Group's growth and a strong advantage in securing contracts. During the year, the Group has increased its activities in certain areas of the industry including the marine construction works. Due to the significant delay of the funding approval from the Legislative Council of the Hong Kong Special Administrative Region (the "**Legco**"), the tendering schedules of certain major infrastructure projects, including Tseung Kwan O-Lam Tin Tunnel and Central Kowloon Route, had been delayed. The delay of the funding approvals of these projects have affected the Group's opportunities to participate in them. Therefore, the Group has carried out mitigating measures, including actively submitting tenders for other public non-tunnel construction projects available in the market during the year.

For the year ended 31 December 2017, the Group had been engaged in 17 public sector projects (2016: 11) and one private sector project (2016: four). Nine public sector projects were newly commenced in 2017 (2016: four). No private sector projects were newly commenced in 2017 (2016: three). During the year ended 31 December 2017, the Group had secured 13 public construction contracts, with the total contract sum of approximately HK$134,600,000, including one of the construction works at Tseung Kwan O-Lam Tin Tunnel.

The Group is constantly evaluating opportunities within the underground construction industry and seeking profitable areas in which it can develop, broaden or commence operation. This is in line with the Group's business strategies as mentioned in the Prospectus.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

OUTLOOK OF TUNNEL CONSTRUCTION INDUSTRY IN HONG KONG

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

It is expected that the demand for tunnel construction services in Hong Kong will continue to grow in the foreseeable future. The growth in tunnel construction industry will mainly be supported by several major transport infrastructure projects including Tseung Kwan O-Lam Tin Tunnel and Central Kowloon Route. In accordance with the Chief Executive's 2017 Policy Address issued by the Hong Kong Government, the Tseung Kwan O-Lam Tin Tunnel is expected to be completed in 2021. In respect of the Central Kowloon Route, the Legco approved the funding of approximately HK$42.3 billion for the construction on 20 October 2017. Subsequently, the Highway Department of the Hong Kong Government has started awarding the construction contracts of Central Kowloon Route to the contractors since December 2017. The Central Kowloon Route is expected to come on stream in 2018 and is expected to be completed in 2025. These major transport infrastructure projects will provide further support to the demand for Hong Kong's tunnel construction industry. All of these new projects, coupled with the ongoing projects, will provide significant revenue receipts for the tunnel construction industry in the future. Given the scale of these projects are relatively large, main contractors would continue to subcontract various tunnel construction parts of the contract to subcontractors such as the Group and therefore the Group will be a significant beneficiary from this demand.

The construction industry is meanwhile facing challenges of increase in construction costs and labour shortage in recent years. According to the information provided by Hong Kong Construction Industry Employees General Union, the salaries of Hong Kong's construction workers will increase with an average of 7.8% in November 2017. Albeit these challenges, the Directors remain confident in the growth potential of the underground construction services business.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the revenue of the Group was approximately HK$157,121,000 (2016: approximately HK$159,127,000), representing a decrease of approximately HK$2,006,000 or 1.3% from the previous year. The decrease in the revenue was mainly attributable to the combined effects of (i) decrease in revenue generated from public sector projects – tunnel construction services to approximately HK$125,935,000 for the year ended 31 December 2017 (2016: approximately HK$149,851,000); (ii) increase in revenue generated from public sector projects – utility construction services and others to approximately HK$31,171,000 for the year ended 31 December 2017 (2016: approximately HK$4,652,000); and (iii) decrease in revenue generated from private projects to approximately HK$15,000 for the year ended 31 December 2017 (2016: approximately HK$4,624,000).

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.

For the year ended 31 December 2017, the total cost of services of the Group was approximately HK$129,214,000 (2016: approximately HK$116,350,000), representing an increase of approximately HK$12,864,000 or 11.1% from the previous year. The staff costs were increased from approximately HK$80,863,000 for the year ended 31 December 2016 to approximately HK$82,381,000 for the year ended 31 December 2017, representing an increase of approximately HK$1,518,000 or 1.9% from the previous year. As the existing tunnel construction projects the Group participated in involve structural works which required more special skilled workers with a higher salary level than other general workers, together with the average salaries increment of the workers, the salary level for hiring each worker has increased while the number of workers has decreased in the year 2017. Taking into account the increase in salary level for each special skilled worker and the decrease in number of workers, the cost for hiring workers remain stable for years ended 31 December 2016 and 2017. The costs of construction materials and supplies were approximately HK$28,116,000 for the year ended 31 December 2017 (2016: approximately HK$17,207,000), representing an increase of approximately HK$10,909,000 or 63.4% from the previous year. Such increase was mainly due to the increase in construction materials and supplies for the public non-tunnel construction projects, which required the Group to purchase its own construction materials, including the contra-charge arrangement. In general, the purchase of construction materials and supplies depended on the terms of the contracts, which may vary on a project-by-project basis. Due to the nature of the existing projects which relied heavily on equipment, the Group recorded a depreciation charges of approximately HK$3,888,000 for the year ended 31 December 2017 (2016: approximately HK$2,186,000), representing an increase of approximately HK$1,702,000 or 77.9% from the previous year.

Gross profit and gross profit margin

The Group's overall gross profit amounted to approximately HK$27,907,000 for the year ended 31 December 2017 (2016: approximately HK$42,777,000), representing a gross profit margin of approximately 17.8% (2016: approximately 26.9%). The decrease in gross profit margin was mainly attributable to the increase in operating expenses incurred during the year in order to meet additional requirements, including variation orders of certain tunnel construction projects. Additionally, a relatively high gross profit margin (approximately 43.6% for the year ended 31 December 2016) of a tunnel construction project which commenced in October 2015 was subsequently completed in January 2017. The revenue of this project was approximately HK$2,991,000 for the year ended 31 December 2017 (2016: approximately HK$51,720,000). The completion of this project, coupled with the tunnel construction projects the Group participated in involving structural works which generally have a lower gross profit margin, have contributed to the decrease in the gross profit margin for the year ended 31 December 2017 as compared to that for the year ended 31 December 2016.

Other income

The Group's other income was approximately HK$328,000 for the year ended 31 December 2017 (2016: approximately HK$571,000), which mainly consisted of the income received from the rental of machinery which amounted to approximately HK$153,000 (2016: approximately HK$396,000).

Administrative and other expenses

The Group's administrative and other expenses mainly comprised (i) staff costs and benefits; (ii) Directors' remuneration; (iii) entertainment expenses; (iv) motor vehicles expenses; (v) rent and rates; (vi) professional fees; (vii) listing expenses and (viii) other expenses in relation to the listing and resumption of trading in the Shares.

The Group's administrative and other expenses increased from approximately HK$20,097,000 for the year ended 31 December 2016 to approximately HK$28,439,000 for the year ended 31 December 2017, representing an increase of approximately HK$8,342,000 or 41.5%. The increase was mainly attributable to the professional fees incurred in relation to the continuous compliance with the GEM Listing Rules, which was approximately HK$1,799,000 for the year ended 31 December 2017 (2016: nil). Besides, the staff costs and benefits increased from approximately HK$5,432,000 for the year ended 31 December 2016 to approximately HK$6,777,000 for the year ended 31 December 2017, representing an increase of approximately HK$1,345,000 or 24.8%. The increase in staff costs and benefit was mainly attributable to salary increment and increase in administrative headcounts which is in line with the Group's business expansion. The Directors' remuneration increased from approximately HK$2,098,000 for the year ended 31 December 2016 to approximately HK$3,128,000 for the year ended 31 December 2017, representing an increase of approximately HK$1,030,000 or 49.1%, due to the additional Directors' fee paid by the Company since the Listing Date. The listing expenses were approximately HK$6,338,000 for the year ended 31 December 2017 (2016: approximately HK$7,666,000). Other expenses in relation to the listing and resumption of trading in the Shares were approximately HK$1,603,000 for the year ended 31 December 2017 (2016: nil).

For details of the suspension and resumption of trading in the Shares, please refer to the announcements of the Company dated 22 February 2017 regarding the suspension of trading and Share price movement, 15 March 2017 regarding update on financial information, 15 March 2017 regarding proposal for resumption of trading in the Shares, 15 March 2017 regarding update on the vendor placing, 23 March 2017 regarding update on the vendor placing, 27 March 2017 regarding the approval and waiver in relation to the vendor placing and resumption of trading in the Shares and 27 March 2017 regarding completion of the vendor placing and resumption of trading in the Shares.

Finance costs

The Group's finance costs mainly comprised (i) interest expenses on bank overdrafts; (ii) finance costs of the obligations under finance leases; and (iii) finance costs of the bank borrowing, secured. For the year ended 31 December 2017, the Group's finance costs amounted to approximately HK$94,000 (2016: approximately HK$501,000), representing a decrease of approximately HK$407,000 or 81.2% from the previous year. The decrease in finance costs was mainly attributable to the decrease in interest expense on bank overdrafts from approximately HK$379,000 for the year ended 31 December 2016 to HK$72,000 for the year ended 31 December 2017, representing a decrease of approximately HK$307,000 or 81.0% from the previous year.

Income tax expense

For the year ended 31 December 2017, the Group generated income only in Hong Kong and was subject only to Hong Kong profits tax. The income tax expense was provided at the rate of 16.5% on the Group's assessable profits for the years ended 31 December 2016 and 2017. The income tax expense for the year ended 31 December 2017 was approximately HK$1,364,000 (2016: approximately HK$5,042,000), representing a decrease of approximately HK$3,678,000 or 72.9% from the previous year. Such decrease was consistent with the decrease in the Group's assessable profits for the same year.

(Loss)/profit and total comprehensive (expenses)/income for the year

The Group recorded the loss and total comprehensive expenses ("**Net Loss**") of approximately HK$1,662,000 for the year ended 31 December 2017 (2016: profit and total comprehensive income ("**Net Profit**") of approximately HK$17,708,000). The Net Loss for the year ended 31 December 2017 was mainly due to the combined effects of (i) the recognition of listing expenses of approximately HK$6,338,000 for the year ended 31 December 2017 (2016: approximately HK$7,666,000); and (ii) other expenses in relation to the listing and resumption of trading in the Shares of approximately HK$1,603,000 for the year ended 31 December 2017 (2016: nil). If these items mentioned above were excluded, the Group would have recorded a Net Profit of approximately HK$6,279,000 for the year ended 31 December 2017 (2016: Net Profit of approximately HK$25,374,000).

Dividends

On 23 March 2018, the Board recommended a final dividend of HK0.4 cents per Share and a special dividend of HK0.8 cents per Share for the year ended 31 December 2017, which is subjected to the approval of shareholders of the Company (the "**Shareholders**") at the annual general meeting of the Company ("**AGM**"). The total payout will amount to HK$6,000,000. No dividend was declared by the Company for the year ended 31 December 2016.

Liquidity, financial resources and funding

As at 31 December 2017, the Group's cash and cash equivalents and pledged bank deposits amounted to approximately HK$26,665,000 (2016: approximately HK$2,104,000) and approximately HK$8,000,000 (2016: nil), respectively, which were denominated in Hong Kong dollar. Such increase was mainly due to the net unused proceeds from the IPO Placing of approximately HK$28.3 million.

After Listing Date, the Group utilised HK$9,500,000 of the net proceeds from the IPO Placing to repay the bank overdrafts from a licensed bank in Hong Kong ("**Bank A**"). The overdraft banking facilities of HK$11,000,000 together with a lease facility of HK$2,460,000 from Bank A were secured by the properties owned by two of our Controlling Shareholders and the personal guarantees by three of our Controlling Shareholders. During the year ended 31 December 2017, these securities were released and the overdraft banking facilities and the lease facility were replaced by the banking facility of the revolving term loan of HK$10,000,000 at the interest rate of Hong Kong Prime Rate per annum, which were secured by the corporate guarantee provided by the Company and the pledged bank deposits of HK$8,000,000. The Group did not utilise the banking facility of the revolving term loan during the year ended 31 December 2017 (the "**Reporting Period**").

The Company and GMEHK, an indirect wholly-owned subsidiary of the Company, entered into the factoring agreement with a licensed bank in Hong Kong ("**Bank B**") dated 22 November 2017 pursuant to which Bank B agreed to provide certain account receivables factoring services to GMEHK with a credit limit of HK$10,000,000, subject to the terms therein (the "**Factoring Agreement**"). As conditions under the Factoring Agreement, (i) GMEHK entered into a deed of security dated 22 November 2017 in favour of Bank B on 22 November 2017 to assign all the account receivables payable to GMEHK by one of its customers under a contract being made between GMEHK and such customer; and (ii) the Company entered into a deed of guarantee on 22 November 2017 in favour of Bank B whereby the Company agreed to provide a corporate guarantee of up to HK$10,000,000. As at 31 December 2017, the Group utilised the factoring facility from Bank B of approximately HK$3,946,000 and presented as the bank borrowing, secured, in the consolidated statement of financial position and bore an interest rate of 2.5% per annum above Hong Kong Interbank Offered Rate. Please refer to the announcement of the Company dated 22 November 2017 regarding the discloseable transaction in relation to Factoring Agreement for details.

As at 31 December 2017, the obligations under finance leases amounted to approximately HK$702,000 (2016: approximately HK$209,000), which represented the finance leases arrangement of our office equipment and motor vehicles.

The Group's gearing ratio, which is calculated by total debts divided by total equity, decreased from approximately 52.1% in 2016 to approximately 14.0% in 2017 due to the growth in the equity attributable to the owners of the Company from approximately HK$39,956,000 for the year ended 31 December 2016 to approximately HK$97,796,000 for the year ended 31 December 2017.

Capital structure

As at 31 December 2016 and 2017, the capital structure of the Company comprised issued share capital and reserves.

Commitments

As at 31 December 2017, the capital commitment and operating lease commitments of the Group was nil (2016: nil) and approximately HK$1,893,000 (2016: approximately HK$476,000), respectively.

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

On 10 February 2017, the Company carried out reorganisation of the Group's structure, as set out in the section headed "History and Reorganisation" in the Prospectus.

Save as disclosed in the Prospectus, there was no significant investments, material acquisitions or disposal of subsidiaries and associated companies by the Company for the year ended 31 December 2017.

Future plans for material investments and capital assets

Save as disclosed in the section headed "Future plans and use of proceeds" in the Prospectus and the section headed "Use of net proceeds from the IPO Placing" in this announcement, the Group did not have other plans for material investment or capital assets as at 31 December 2017.

Contingent liabilities

As at 31 December 2017, there were a number of labour claims lodged against the Group arising from the ordinary course of its civil engineering construction business. No specific claim amount has been specified in the applications of these claims. In the opinion of the Directors, the outflow of resources required in settling these claims if any, was remote as these claims are usually covered by insurance maintained by relevant main contractors. Therefore, the ultimate liability under these claims would not have a material adverse impact on the financial position or performance of the Group and no provision for the contingent liabilities in respect of the litigations is necessary.

As at 31 December 2017, the Group has given a corporate guarantee of approximately HK$2,049,000 (2016: nil) to an insurance company on a surety bond at amount of approximately HK$2,049,000 (2016: nil) in relation to a public non-tunnel construction contract of the Group in the ordinary course of business. The surety bond as at 31 December 2017 is expected to be released in accordance with the terms of the respective construction contract. Save for the guarantee given on the surety bond, the Group has no other material contingent liabilities.

Foreign currency exposure

The Group's reporting currency is Hong Kong dollar. During the years ended 31 December 2016 and 2017, the Group's transactions were denominated in Hong Kong dollar. The Group had no material exposure to foreign currency risk.

Charges on the Group's assets

As at 31 December 2017, the Group had pledged bank deposits of HK$8,000,000 (2016: nil) to secure the bank facility offered by Bank A. Also, the Group had placed cash collateral of HK$200,000 to an insurance company in Hong Kong for the provision of the surety bond for one of our public non-tunnel construction projects. For details of the surety bond, please refer to the paragraph headed "Contingent Liabilities" above. Saved for the foregoing, the Group did not have any charges on its assets.

Information on employees

As at 31 December 2017, the Group had 299 employees which comprises management, technical staff, administration staff, accounting and human resources staff and workers in Hong Kong (2016: 539 employees). The decrease in number of employees is due to the change in composition of the type of workers hired by the Group in the year 2017. As the existing tunnel construction projects the Group participated in involve structural works which required more special skilled workers with a higher salary level than other general workers, together with the average salaries increment of the workers, the salary level for hiring each worker has increased while the number of workers has decreased in the year 2017. Taking into account the increase in salary level for each special skilled worker and the decrease in number of workers, the cost for hiring workers remain stable for years ended 31 December 2016 and 2017. Employee remuneration package is based on their previous working experience and actual performance. Apart from the basic salary, discretionary bonus and allowance will be granted to employees based on their individual performance by 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$92,286,000 for the year ended 31 December 2017 (2016: approximately HK$88,393,000) which was due to the increase in staff costs and benefits in the administrative and other expenses due to the addition of administrative headcounts and additional Directors' fee payable by the Company since the Listing Date. Depending on the nature of works and the need of the projects, the Group will provide training to the employees from time to time. The Group's customers sometimes require the employees of the Group to attend its own on-site occupational safety trainings.

OTHER INFORMATION

Corporate Governance Practices

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

During the Relevant Period, the Directors considered that the Company has complied with the CG Code.

Code of conduct for securities transactions by Directors

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

On 15 March 2017, the Controlling Shareholders namely Mr. Chuang Chun Ngok Boris, Mr. Chuang Wei Chu, Ms. To Ying Ping and Ms. Chuang Yau Ka entered into a placing agreement with two independent placing agents, pursuant to which the placing agents would on a best-effort basis, place 25,000,000 Shares held by the Controlling Shareholders, to not less than 150 independent placees at HK$0.54 per Share (the "**Vendor Placing**"). For the purpose of implementing the Vendor Placing, the Company has made an application for and the Stock Exchange has agreed to grant a waiver from strict compliance with Rules 5.56(a) and 5.59 of the GEM Listing Rules regarding the restrictions on Directors dealing in Shares during the black-out period, subject to certain conditions.

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 Relevant Period.

Audit Committee

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

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

The audited consolidated financial statements of the Group for the year ended 31 December 2017 had been reviewed by the Audit Committee, which was of the opinion that the audited consolidated financial statements have 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 Reporting Period up to the date of this announcement.

Scope of work of BDO Limited

The figures in respect of the Group's consolidated statement of the financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2017. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

Interest of the compliance adviser

As at the date of this announcement, 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.

AGM

The AGM for the financial year 2017 of the Company is scheduled to be held on Thursday, 3 May 2018 and a notice of AGM will be published and despatched in due course.

Closure of register of members

The register of members of the Company will be closed from Friday, 27 April 2018 to Thursday, 3 May 2018 (the "**closure period**"), both days inclusive, for the purposes of determining the entitlements of the Shareholders to attend and vote at the forthcoming AGM. During this closure period, no transfer of the shares will be registered. In order to qualify for attending and voting at the AGM, all transfers, accompanied by the relevant shares certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 26 April, 2018.

To ascertain entitlement to the proposed final and special dividends, the register of members of the Company will also be closed on Wednesday, 9 May 2018 to Thursday, 10 May 2018. In order to qualify for the proposed final and special dividends, which is subject to approval of Shareholders at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 8 May 2018.

Comparison of business objectives with actual business progress

The following table is a comparison between the Group's business objectives as set out in the Prospectus and the Group's actual business progress up to 31 December 2017.

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

Use of net proceeds from the IPO Placing

The shares of the Company were listed on 22 February 2017 on the GEM by the IPO Placing. The placing price was HK$0.54 per Share. The net proceeds received by the Company from the IPO Placing, after deducting underwriting fees and other expenses, were approximately HK$45.9 million, which has been/will be deployed as to:

(i) HK$16.9 million for machinery purchase;

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

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

(iv) HK$1.3 million for our newly leased office rental expenses;

(v) HK$1.2 million for the new office space refurbishment and decoration;

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

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

As at 31 December 2017, the net proceeds had been utilised as follows:

	Actual net proceeds	**Amount utilised as at 31 December 2017**	**Balance**
	HK$ million	*HK$ million*	*HK$ million*
Machinery purchase	16.9	–	16.9
Additional prospective and/or experienced employees recruitment for our projects	12.7	4.8	7.9
Repayment of overdraft facilities from a bank	9.5	9.5	–
Newly leased office rental expense	1.3	1.1	0.2
New office space refurbishment and decoration (Note)	1.2	0.1	1.1
Information technology and project management systems upgrade	1.3	0.1	1.2
Working capital and general corporate purposes	3.0	2.0	1.0
Total	45.9	17.6	28.3

Note:

The Group intends to change the unused net proceeds from the IPO Placing of approximately HK$1.1 million originally intended for new office space refurbishment and decoration as at 31 December 2017. Please refer to the section headed "Reason for the change of use of net proceeds" below.

As at the date of this announcement, the unused net proceeds were deposited in licensed banks in Hong Kong.

Reason for the change of use of net proceeds

Based on the Director's recent observations on the market norm and the terms of some recently awarded construction contracts in 2017, a subcontractor may be required to take out surety bonds issued by banks or insurance companies in the amount of certain percentage of the contract sum in favour of its customers. In such case, the subcontractor may have to place certain amount of cash collateral in favour of the banks or insurance companies for the purchase of the surety bonds. To facilitate the Group to undertake more major infrastructure projects in Hong Kong which may have such requirements, the Directors consider that it is beneficial to the Group to redesignate the portion of unutilised net proceeds from the IPO Placing of approximately HK$1.1 million originally intended for new office space refurbishment and decoration as at 31 December 2017 for this purpose. The Directors anticipate that the above change of use of net proceeds is in line with the latest business environment as well as the Group's business objectives of undertaking high-value construction services.

The Directors will continuously evaluate the Group's business objectives to respond to changes in the business environment in the underground construction industry to attain sustainable business growth.

Publication of annual report on the websites of the Company and the Stock Exchange

Pursuant to the requirements of the GEM Listing Rules, the 2017 annual report of the Company will set out all information required by the GEM Listing Rules and will be published on the GEM website at www.hkgem.com and the Company's website at www.gmehk.com on or before 31 March 2018.

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

Hong Kong, 23 March 2018

As at the date of this announcement, 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.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the Company's website at www.gmehk.com.