M&L HOLDINGS GROUP LIMITED
明樑控股集團有限公司

Incorporated in the Cayman Islands with limited liability
Stock Code: 8152

2019
ANNUAL REPORT

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 report, for which the directors (the "Directors") of M&L Holdings Group 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 report 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 report misleading.

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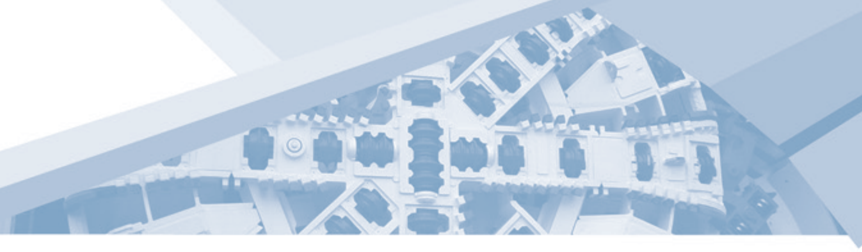

Corporate Information

EXECUTIVE DIRECTORS

Mr. Ng Lai Ming
(Chairman and Chief Executive Officer)
Mr. Ng Lai Tong
Mr. Cheung King
Mr. Ng Lai Po

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tai Wai Kwok
Ir Lo Kok Keung
Mr. Lau Chi Leung

AUDIT COMMITTEE

Mr. Tai Wai Kwok *(Chairman)*
Ir Lo Kok Keung
Mr. Lau Chi Leung

NOMINATION COMMITTEE

Mr. Lau Chi Leung *(Chairman)*
Mr. Ng Lai Ming
Ir Lo Kok Keung
Mr. Tai Wai Kwok

REMUNERATION COMMITTEE

Ir Lo Kok Keung *(Chairman)*
Mr. Ng Lai Ming
Mr. Tai Wai Kwok
Mr. Lau Chi Leung

CORPORATE GOVERNANCE COMMITTEE

Mr. Ng Lai Po *(Chairman)*
Mr. Tai Wai Kwok
Ir Lo Kok Keung
Mr. Lau Chi Leung

JOINT COMPANY SECRETARIES

Mr. Ng Lai Po
Mr. Chan Sun Kwong

AUTHORISED REPRESENTATIVES

Mr. Ng Lai Ming
Mr. Ng Lai Po

COMPLIANCE OFFICER

Mr. Ng Lai Po

REGISTERED OFFICE

P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

10th Floor, Empress Plaza
17-19 Chatham Road South
Tsimshatsui, Kowloon, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

COMPLIANCE ADVISER

VMS Securities Limited

AUDITOR

BDO Limited

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

STOCK CODE

8152

COMPANY WEBSITE

www.mleng.com

Chairman's Statement

Dear Shareholders,

On behalf of the board of Directors (the "Board") of M&L Holdings Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (together, the "Group") in respect of the year ended 31 December 2019.

In the year of 2019, continuing the measure to curb the impact from the persistent slowdown in Hong Kong markets, we kept on exploring business opportunities from market segments outside Hong Kong. Through our endeavour, we are delighted to see the recovery of business from two established market segments — China and Singapore & other Asia-Pacific countries. In compare to last year, the revenue in 2019 from the China and Singapore & other Asia-Pacific countries had increased by 23.0% and 64.3% respectively. Many tunnelling projects are progressing and launching in these two markets. Moreover, we have seen a great leap in revenue in 2019 from other countries in global markets, increased by 603.5% as compare to last year. We will keep probing into global markets to seek for the growing point of our Company.

Nevertheless, the performance of Hong Kong market in the year of 2019 was disappointing. As mentioned in last year, no tunnel boring machine tunnelling projects being staged recently in Hong Kong had adversely affected our Company's performance in tunnelling business. In addition, the social unrest in Hong Kong had caused disturbance to foundation business in Hong Kong market, especially in the second half of the year of 2019. We will keep closely monitoring of the potential business opportunities in Hong Kong.

On the whole, due to the improvement in performance from markets outside Hong Kong, the Company total revenue was increased by 23.9%, as compare to last year.

Once again, I would like to take this opportunity to express my respect and appreciation to my fellow board members, management team, staff members, business partners and, most importantly, our shareholders and customers for their support.

Yours truly,

Ng Lai Ming
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 31 March 2020

Management Discussion and Analysis

BUSINESS REVIEW

Background, recent development and outlook

The Group is an integrated engineering solutions provider in connection with (i) the supply of specialised cutting tools and parts for construction equipment with particular focus on disc cutters which are widely used in conjunction with tunnel boring machines ("TBM") and microtunnelling equipment; (ii) the supply of fabricated construction steel works and equipment; (iii) the supply of specialised construction equipment, and repair and maintenance services. Our business can broadly be categorized into two segments, namely tunnelling and foundation.

Hong Kong market

Recently, no new TBM tunnelling projects being staged in Hong Kong had adversely affected our revenue from customers of tunnelling sector in Hong Kong. Moreover, the social unrest in Hong Kong in 2019 had caused disruption to the Legislative Council and delay in approving the budgets application of government construction projects. As a result, the demand for our products from customers of the foundation sector in Hong Kong was weak, especially for the second half of 2019.

We will monitor the development of new railway schemes which were recommended in the "Railway Development Strategy" published by the Transport and Housing Bureau of Hong Kong in 2014, as well as any potential business opportunity in Hong Kong.

PRC market

The Group's business in the PRC market was related to the supply of specialised cutting tools and parts mainly for the tunnelling construction sites as well as the tunnelling equipment manufacturers. For the year ended 31 December 2019, we are glad that the revenue from sales to the PRC market had been recovered and increased mildly by 23.0%, in comparison with the same period in 2018. Many tunnelling projects, e.g. mass railway system, high speed railway, are progressing or launching in better developed cities in the PRC, e.g. cities in Big Bay Area. The market prospect for tunnelling business in China is positive.

Singapore and other Asia-Pacific countries

The Group has utilised Singapore as a regional hub to seek opportunities for expansion into Malaysia and other Southeast Asia countries. Moreover, the Group had completed the set-up of the workshop and maintenance services centre in Melbourne, Australia. We use our facilities in Melbourne to expand our business into Australia and other Pacific countries. We are delighted that we recorded a strong growth in revenue from these countries for the year ended 31 December 2019 and increased by 64.3% in comparison with the same period in 2018. The market condition in Singapore and other Asia-Pacific countries are improving.

Other countries

We are also seeking actively for expansion opportunities in the global markets and have established a steady flow of revenue from our newly explored market e.g. countries in Europe and Americas. We will keep exploring expansion opportunities and identify the next growing point of the Group.

FINANCIAL REVIEW

Revenue

Our revenue increased by approximately HK$27.3 million, or 23.9%, from approximately HK$113.9 million for the year ended 31 December 2018 to approximately HK$141.2 million for the year ended 31 December 2019. The increase was primarily attributable to the increase in revenue recognized for our tunnelling segment by approximately HK$37.0 million, or 39.2%, from approximately HK$94.3 million for the year ended 31 December 2018 to approximately HK$131.3 million for the year ended 31 December 2019. Meanwhile, the revenue recognised for our foundation segment was decreased, by HK$9.7 million, or 49.5%, from approximately HK$19.6 million for the year ended 31 December 2018 to approximately HK$9.9 million for the year ended 31 December 2019. From the perspective of geographic locations of our customers, revenue derived from customers based in Hong Kong, decreased from approximately HK$33.1 million for the year ended 31 December 2018 to approximately HK$12.2 million for the year ended 31 December 2019, while revenue derived from customers based in the PRC and Singapore and other Asia-Pacific countries increased by HK$14.4 million and HK$9.1 million to approximately HK$76.9 million and HK$23.2 million from the corresponding period in 2018, respectively.

Cost of sales

Cost of sales represents costs and expenses directly attributable to our revenue generating activities. Our cost of inventories sold accounted for the largest part of our cost of sales. Our cost of sales increased by approximately HK$20.3 million, or 25.2%, from approximately HK$80.7 million for the year ended 31 December 2018 to approximately HK$101.0 million for the year ended 31 December 2019. Such movement was primarily attributable to the increase in cost of inventory sold associated with our increase in revenue.

Gross profit

Our gross profit increased by approximately HK$6.9 million, or 20.7%, from approximately HK$33.3 million for the year ended 31 December 2018 to approximately HK$40.2 million for the year ended 31 December 2019. Our gross profit margin decreased slightly from approximately 29.2% for the year ended 31 December 2018 to approximately 28.5% for the year ended 31 December 2019.

Other income and other losses

The other income and other losses, primarily consisted of (i) inspection charges, (ii) gain from disposal of property, plant and equipment and (iii) changes in fair value of other asset at fair value through profit or loss. Our net other losses was approximately HK$0.2 million for the year ended 31 December 2019, while it was a net other income of approximately HK$0.2 million for the year ended 31 December 2018.

Exchange losses

The exchange losses for the year ended 31 December 2019 was approximately HK$0.8 million. The losses were mainly due to the further depreciation of Renminbi and Australian dollar during the year ended 31 December 2019.

Selling expenses

Selling expenses mainly include freight charges and sales commission for our staff accounted for under the employee benefit expenses. Selling expenses increased from approximately HK$4.7 million for the year ended 31 December 2018 to HK$6.6 million for the year ended 31 December 2019, which was mainly attributable to the increase in revenue recorded by our Group.

Administrative expenses

Administrative expenses mainly include staff costs, Directors' remuneration and benefits (both accounted for under the employee benefit expenses), legal and professional fees, depreciation and amortisation, (reversal of provision)/provision for impairment loss on trade receivables and other administrative expenses. Administrative expenses increased by approximately HK$3.9 million or 13.3% from approximately HK$29.4 million for the year ended 31 December 2018 to approximately HK$33.3 million for the year ended 31 December 2019. The increase was mainly attributable to the provision for impairment loss on trade receivables of HK$0.2 million for the year ended 31 December 2019, while it was a reversal of provision for impairment loss on trade receivables of approximately HK$4.1 million for the year ended 31 December 2018.

Finance income and finance costs

The net amount of finance costs increased by approximately HK$0.6 million from approximately HK$0.8 million for the year ended 31 December 2018 to approximately HK$1.4 million for the year ended 31 December 2019. Such increase was mainly attributable to the increase in finance costs related to bank borrowings and the lease liabilities.

Income tax credit

The income tax credit for the year ended 31 December 2019 was approximately HK$0.8 million, while the income tax credit for the year ended 31 December 2018 was approximately HK$0.2 million.

Loss attributable to equity holders of our Company

We recorded a loss attributable to equity holders of our Company for the year ended 31 December 2019 of approximately HK$1.3 million, while it was a loss attributable to equity holders of our Company of approximately HK$5.0 million for the year ended 31 December 2018.

Liquidity, financial resources and capital structure

	31 December 2019 HK$'000	31 December 2018 HK$'000
Current assets	**173,118**	160,458
Current liabilities	**94,354**	71,179
Current ratio	**1.83**	2.25

During the year ended 31 December 2019, the Group financed its operations by its internal resources and banking facilities. As at 31 December 2019, the Group had net current assets of approximately HK$78.8 million (31 December 2018: HK$89.3 million), including cash and cash equivalents of approximately HK$25.1 million (31 December 2018: HK$33.9 million). The Group's current ratio as at 31 December 2019 was 1.83 times (31 December 2018: 2.25 times).

As at 31 December 2019, the Group had a total available banking and other facilities of approximately HK$30.0 million, of which approximately HK$24.0 million was utilised and approximately HK$6.0 million was unutilised and available for use.

Please refer to note 23 to the consolidated financial statements for more detailed information, including maturity profile, on the Group's borrowings.

There has been no change in capital structure of the Company during the year ended 31 December 2019. As at 31 December 2019, the equity attributable to equity holders of the Company amounted to approximately HK$111.2 million (31 December 2018: approximately HK$112.6 million).

Gearing ratio

As at 31 December 2019, the net gearing ratio was 9.8%, based on bank borrowings, lease liabilities and the advance from a director, less cash and cash equivalent totalling HK$10.9 million as a percentage of equity attributable to equity holders of the Company of HK$111.2 million. As at 31 December 2018, we maintained a net cash position. On this basis, we did not record a net gearing ratio.

FOREIGN CURRENCY EXPOSURE AND TREASURY POLICY

During the year ended 31 December 2019, other than Hong Kong dollars, the major currencies of which our Group transacted in consisted primarily of Euro, Renminbi and Australian dollars (the "Major Foreign Currencies").

While our Group did not adopt any hedging policies during the period, our Directors consider that we were able to manage our exposure to foreign exchange risks by using the Major Foreign Currencies (i) as the settlement currencies of our contracts with certain customers; and (ii) to settle payments with our suppliers.

As part of our Group's treasury practice, we would manage our foreign currency exposure by converting part of our Major Foreign Currencies holdings to Hong Kong dollars from time to time. Going forward, our Directors will continue to use the Major Foreign Currencies as the settlement currency of our contracts with our customers and suppliers in order to manage our exposure to foreign exchange risks. In addition, our Group will continue to evaluate and monitor our exposure to foreign exchange risks from time to time and may consider adopting hedging policies if necessary.

CAPITAL COMMITMENT

As at 31 December 2019, the Group had no capital commitment.

USE OF PROCEEDS

The net proceeds from the share offer (the "Share Offer") of the Company's shares that listed on GEM of the Stock Exchange on 21 July 2017 (the "Listing Date") was approximately HK$40.2 million, which was different from the estimated net proceeds of HK$39.0 million as disclosed in the prospectus of the Company dated 30 June 2017 (the "Prospectus"). The difference of HK$1.2 million has been adjusted in the same manner and in the same proportion to the use of proceeds as shown in the Prospectus. As further disclosed in the announcement of the Company dated 21 December 2018 (the "Use of Proceeds Announcement"), the Board has resolved to reallocate approximately HK$2.7 million of the net proceeds for expanding our repair and maintenance services for tunnelling business in Australia from the amount of net proceeds originally designated for expanding such services in Mainland China. The utilisation of net proceeds raised by the Group from the Share Offer up to 31 December 2019 is as below.

	Estimated use of proceeds	Adjusted use of proceeds	Up to 31 December 2019	
			Utilised	Unutilised
	HK$'million	HK$'million	HK$'million	HK$'million
To further develop fabricated construction steel works and equipment business in the PRC	16.0	16.5	0.2	16.3
To acquire and/or partly finance the expansion of fleet of specialised construction machinery and equipment	13.6	14.0	14.0	–
To expand repair and maintenance services in the PRC for tunnelling business	5.5	3.0	0.4	2.6
To expand repair and maintenance services in Australia for tunnelling business	–	2.7	2.7	–
General working capital	3.9	4.0	4.0	–
	39.0	40.2	21.3	18.9

The unutilised net proceeds from the Share Offer have been placed with licensed banks in Hong Kong.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus and the Use of Proceeds Announcement with the Group's actual business progress for the period from the Listing Date to 31 December 2019 is set out below.

Business objectives	Actual business progress up to 31 December 2019
Further development fabricated construction steel works and equipment business in the PRC	We had visited various industrial properties in Foshan, Dongguan and Huizhou in Guangdong Province to find the appropriate location for the set-up of the factory. The process is still ongoing.
Expansion of fleet of specialised construction machinery and equipment	Acquired seven sets of PTC vibrator equipment for trading purpose.
Expansion of repair and maintenance services in the PRC	We had visited various industrial properties in Foshan, Dongguan and Huizhou in Guangdong Province to find the appropriate location for the workshop. The process is still ongoing. Furthermore, we had engaged the construction of new mobile repair and maintenance units for future deploy to the construction site of our customers in the PRC, so as to provide repair and maintenance services and to secure our sales orders from the customers.
Expansion of repair and maintenance services in Australia	We had completed the set-up of the warehouse and maintenance services centre in Melbourne, and was put into use for the service of Australia market.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2019.

CHARGES ON ASSETS

As at 31 December 2019, certain machinery and equipment under right-of-use assets and inventories with carrying value of approximately HK$6,869,000 (2018: certain machinery and equipment under property, plant and equipment, and inventories of approximately HK$7,574,000) were pledged to secure for the finance of certain lease liabilities of approximately HK$3,042,000 (2018: finance lease liabilities of HK$4,593,000). In addition, a life insurance policy to Mr. Ng Lai Ming with an insured sum of US$1,582,862 has been assigned as security for certain banking facilities.

SIGNIFICANT INVESTMENTS HELD

The Group had not held any significant investments during the year ended 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Management Discussion and Analysis

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees and remuneration policies

The number of staff of the Group by functions as at 31 December 2019 and 2018 are as follows:

	As at 31 December	
	2019	2018
Directors	**7**	7
Sales & Engineering Solutions	**10**	10
Design & Development	**4**	5
Technical Services & Maintenance	**13**	15
Finance, Administration & Operations	**15**	14
	49	51

The total staff costs of the Group (including Directors' emoluments, salaries to staff, sales commission and other staff benefits included provident fund contributions and other staff benefits) for the year ended 31 December 2019 was approximately HK$18.7 million (2018: HK$20.2 million). The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group monitors the performance of individual employee on a continuous basis and rewards outstanding performance of the employees by salary revision, bonus and promotion where suitable. The Group maintains a good relationship with its employees and has not experienced any significant problems with its employees due to labour disputes nor any difficulty in the recruitment and retention of experienced staff.

Customers and suppliers

The Group is committed to providing high-quality products and services to its customers. We have extensive customer networks and relationships with market participants in various countries in Asia-Pacific, Europe, Americas and the PRC, and we are well-positioned to capture opportunities in the construction industry. We believe that customer satisfaction is the key to our long-term success.

The Group values mutually beneficial long-term relationships with its suppliers. Steady supply of high-quality products are crucial for us. The Group is committed to developing stable and sustainable partnership among its suppliers.

ENVIRONMENTAL POLICIES

The Group has established a set of management policies, mechanisms and measures on environmental protection to ensure the sustainable development and operation of the Group. The Group strives to enhance the efficiency in the usage of energy and resources and also complies with relevant environmental regulations in Hong Kong, the PRC, Singapore and Australia. For further details, please refer to the section headed "Environmental, Social and Governance Report".

COMPLIANCE WITH LAWS AND REGULATIONS

The operations of the Group are primarily carried out by the Company's subsidiaries in Hong Kong, the PRC, Singapore and Australia. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in each of the above jurisdictions. During the year ended 31 December 2019 and up to the date of this report, the Group's operations have complied with all the relevant laws and regulations in each of the above jurisdictions in all material respect.

In relation to import and export of articles (other than exempted articles) to and from Hong Kong, an accurate and complete import and export declaration is required to lodge with the Customs and Excise Commissioner within 14 days after the date of import or export of articles under regulations 4 and 5 of the Import and Export Registration Regulations. A declaration charge is payable for such import or export. To the best knowledge of the management of our Group, our Group has complied with the relevant provisions under the Import and Export Ordinance and its subsidiary legislation in respect of all import and export declarations from August 2016 and up to 31 December 2019 in all material respect, except one incident which was related to the provision of repair and maintenance service to machines owned by an overseas customer. After the required servicing was completed, the relevant machines were being shipped back to the overseas customer and extra time was required to identify their original value, which was not readily available as in the case of sale of products; as a result, the export declaration was delayed and was made 2 days after the time limit allowed under the Import and Export Registration Regulations and led to a penalty charge of HK$40 thereon. To the best knowledge and believe of the Directors, the aforesaid late filing incident was an isolated incident caused by practical constraints and there was no indication of ineffectiveness or failure of the Group's control over customs declaration. Nonetheless, the Group has enhanced the recording of more detailed information of assets held by the Group as custodian of others so as to avoid future violation of the abovementioned regulations.

PRINCIPAL RISK AND UNCERTAINTY

Our business is subject to a number of risks, including but not limited to risks relating to our business and industry, and risks relating to the countries in which we operate. Some of the major risks we face include:

– Our businesses operate on a project-by-project basis and we may be unable to compete effectively or secure new contracts;

– A significant portion of our purchases of products were suppliers by a few suppliers;

– Potential competition with the entry of other integrated engineering solutions (or similar services) providers may reduce our market share and adversely affect our business;

– Demand for our businesses may be adversely impacted by slowdown in the tunnelling and foundation sectors in Hong Kong, the PRC, Singapore and Australia; and

– We are exposed to our customers' credit risk.

The management is delegated to identify, analyze, evaluate, respond, monitor and communicate risks associated with any activity, function or process within its scope of responsibility and authority. For risk control and monitoring, it involves making decisions regarding which risks are acceptable and how to address those that are not. The management develops contingency plans for possible loss scenarios.

EVENTS AFTER THE FINANCIAL YEAR

After 31 December 2019, there was an outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020. A series of precautionary and quarantine control measures have been implemented across the Mainland China. Our China operation was suspended for more than one month. China operation was resumed later in early March but has not yet recovered to full operating level, which would have a negative impact to revenue from China market for the three months ended 31 March 2020.

During March 2020, the COVID-19 outbreak was developed rapidly in other countries of the world. Many countries have adopted series of precautionary and quarantine control measures, including countries where our customers and suppliers are located.

As at the date of this report, the impacts of the COVID-19 outbreak on the global economics conditions remain uncertain, the Group is unable to quantify the related financial effects. The Group will continue to monitor and assess the development of the COVID-19 outbreak and evaluate its financial impact on the Group.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ng Lai Ming (吳麗明), aged 56, is our chairman, chief executive officer and executive Director. Mr. Ng is one of our founders and controlling shareholders. Mr. Ng is primarily responsible for the overall management, strategic development and daily operation of our Group. He was appointed as our Director on 24 September 2015, and currently holds directorship in certain subsidiaries of our Company. He is also a member of our remuneration committee and nomination committee. Mr. Ng is the brother of Mr. Ng Lai Tong and Mr. Ng Lai Po.

Mr. Ng obtained his bachelor's degree in mechanical engineering from Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in November 1989. Mr. Ng has over 23 years of experience in the construction and engineering industries in Hong Kong.

Mr. Ng Lai Tong (吳麗棠), aged 54, is our executive Director. Mr. Ng Lai Tong is primarily responsible for the overall business operation and sales of our Group in Hong Kong and the PRC. He was appointed as our Director on 6 January 2017, and currently holds directorship in certain subsidiaries of our Company. Mr. Ng Lai Tong first joined our Group in August 1994, and rejoined our Group in June 2001 after leaving us in November 1997 and was responsible for sales, marketing and overall business strategy of our Group in the PRC. Mr. Ng Lai Tong is the brother of Mr. Ng Lai Ming and Mr. Ng Lai Po. Mr. Ng obtained his bachelor's degree in science from the Chinese University of Hong Kong in December 1988. Mr. Ng has over 27 years of experience in engineering and sales in the construction and manufacturing industries.

Mr. Cheung King (張勁), aged 49, is our executive Director. Mr. Cheung is also the director of our fabricated construction steel works division and is primarily responsible for the overall management of our fabricated construction steel works division. He was appointed as our Director on 6 January 2017, and currently holds directorship in certain subsidiaries of our Company. Mr. Cheung obtained his higher diploma in electronic engineering from Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in November 1993. Mr. Cheung joined our Group in November 1999 as a sales director and has over 22 years of experience in the construction and engineering industries in Hong Kong.

Mr. Ng Lai Po (吳麗寶), aged 52, is our chief financial officer, executive Director, compliance officer and joint company secretary. Mr. Ng is primarily responsible for the overall financial management and corporate governance of our Group. He joined our Group in October 2015 and was appointed as our Director on 6 January 2017. He is also the chairman of our corporate governance committee. Mr. Ng is the brother of Mr. Ng Lai Ming and Mr. Ng Lai Tong. Mr. Ng obtained his bachelor's degree in social sciences from the University of Hong Kong in December 1990. He has been a fellow of the Association of Chartered Certified Accountants since November 1999 and a member of the Hong Kong Institute of Certified Public Accountants since 2017. Mr. Ng has over 23 years of experience in financial and operation management in Hong Kong and the PRC, covering a variety of industries including property management, department store operation, petroleum, fast moving consumer goods, pharmaceutical, luxury and fashion products trading and retailing. Mr. Ng has been serving as an independent non-executive director of Elate Holdings Limited (previously named "South Sea Petroleum Holdings Limited"), a company listed on the Stock Exchange (stock code: 76) since December 2012.

Independent Non-executive Directors

Mr. Tai Wai Kwok (戴偉國), aged 50, was appointed as our independent non-executive Director on 19 June 2017. He is also the chairman of our audit committee and a member of our remuneration committee, nomination committee and corporate governance committee. He has been a member of the Hong Kong Institute of Certified Public Accountants since January 1996 and a fellow of the Association of Chartered Certified Accountant since September 2003. Mr. Tai obtained his bachelor of arts degree in accountancy from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in November 1991. Mr. Tai has over 28 years of experience in auditing, accounting and financial related matters.

Ir Lo Kok Keung (盧覺強), aged 71, was appointed as our independent non-executive Director on 19 June 2017. Ir Lo is also the chairman of our remuneration committee and a member of our audit committee, nomination committee and corporate governance committee. Ir Lo obtained his higher certificate in mechanical engineering from the Hong Kong Technical College (former of the Hong Kong Polytechnic University) in July 1972. He has been a chartered engineer of the Institution of Mechanical Engineers since January 2002. Ir Lo has been a fellow of the Institution of Mechanical Engineers and the Institute of Marine Engineering, Science and Technology in the United Kingdom since January 2007 and July 2009, respectively. He has been a member of the Society of Automotive Engineers in the United States of America since October 1985. Ir Lo was admitted as a member of the Hong Kong Institution of Engineers in January 2000 and a registered professional engineer (mechanical) of the Engineers Registration Board in Hong Kong since 2001. Ir Lo was appointed as a member of the Appeal Board Panel under the Builders' Lifts and Tower Working Platforms (Safety) Ordinance from October 2003 to October 2006 and he has been repeatedly appointed by the Hong Kong Council for Accreditation of Academic & Vocational Qualifications as a specialist. Ir Lo has over 42 years of experience in teaching, running project laboratories, and assisting in experimental rigs design of research students and professors. Ir Lo has been serving as an expert witness in the Hong Kong courts of law since January 1994, providing expert witness testimony and evidence related to traffic accidents and mechanical defects. Ir Lo was recognized as expert witness by the court of law of Macau and given evidence related to traffic accident case in trial in May 2017. Ir Lo had been invited as a honourable speaker to give the seminar on Road Traffic Accident Reconstruction by the Legal and Judicial Training Centre of Macau Special Administrative Region in May 2018. This seminar provided for justices, prosecutors and senior police officers only. Ir Lo was also appointed by the Macau Government Special Administrative Region Transport Bureau, to act as instructor of the traffic accident reconstruction training course in January 2019.

Mr. Lau Chi Leung (劉志良), aged 70, was appointed as our independent non-executive Director on 19 June 2017. He is also the chairman of our nomination committee and a member of our audit committee, remuneration committee and corporate governance committee. Mr. Lau obtained his Bachelor of Arts degree in architectural studies from the University of Hong Kong in November 1973, Diploma in Architecture from Canterbury College of Art in the United Kingdom in July 1977 and Master's degree in project management from the University of Sydney in Australia in October 2004. Mr. Lau has been a member of the Hong Kong Institute of Architects for over 40 years and was awarded for his outstanding contribution towards the works of the Hong Kong Institute of Architects in March 2015. Mr. Lau is a Registered Architect under the Architects Registration Board, Hong Kong, an Authorized Person and a Registered Inspector under the Buildings Ordinance, Hong Kong. Mr. Lau has over 41 years of experience in the building construction and property development industry. Mr. Lau was appointed as a member of the Contractors Registration Committee for a period of four years from January 2017, a member of the Construction Workers Registration Appeal Panel for a period of four years from January 2017 and a member of the Appeal Tribunal Panel, Buildings Ordinance for a period of three years from December 2018.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the date of report; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders as at the date of this report; and (iii) did not hold any other directorships in listed public companies in the three years prior to the date of this report.

SENIOR MANAGEMENT

Ms. Pang Suk Yee (彭淑儀), aged 47, is our financial controller. Ms. Pang joined our Group in March 2015 as an accounting manager and was promoted to financial controller in October 2015. She is mainly responsible for the financial management of our Group, including but not limited to consolidating financial statements at group level, reviewing financial accounts of subsidiaries and liaising with external auditor. Ms. Pang obtained her bachelor's degree of business administration in accounting from the Hong Kong University of Science and Technology in November 1995. She has been a member of the Hong Kong Institute of Certified Public Accountants since April 2001 and a fellow of the Association of Chartered Certified Accountants since December 2005. Ms. Pang has over 20 years of experience in accounting and finance.

Mr. Kwok Wai Kai (郭偉佳), aged 69, is the senior sales and marketing manager of our foundation works division and is primarily responsible for the sales management of our foundation division. Mr. Kwok joined our Group in February 2004 and was responsible for our Group's foundation business in Hong Kong. Mr. Kwok has over 32 years of experience in the foundation industry.

Mr. Chew Chee Boon (Zhou Zhiwen) (周志文), aged 39, is our regional manager in Singapore. Mr. Chew joined our group in January 2013 as assistant regional manager and was promoted to regional manager of Singapore M&L in July 2014. He is primarily responsible for the regional business operation of our Group in Singapore. Mr. Chew obtained his diploma in electronic and computer engineering from Singapore Ngee Ann Polytechnic in August 2001, his bachelor's degree of science in computer systems engineering (computer science) from Nottingham Trent University in the United Kingdom in November 2007 through distance learning, his master's degree in international management from the University Schools of Management IAE France in March 2010 and his master's degree in Management from Université Grenoble Alpes (formerly known as Université de Grenoble 2) in April 2010, both in France.

JOINT COMPANY SECRETARIES

Mr. Ng Lai Po (吳麗寶), is the joint company secretary of our Group, being responsible for corporate governance of our Group. Mr. Ng is also an executive Director, our chief financial officer and compliance officer. For further details of Mr. Ng, please refer to the paragraph headed "Directors and Senior Management – Executive Directors" above.

Mr. Chan Sun Kwong (陳晨光), aged 53, was appointed as the joint company secretary of our Group on 19 June 2017. He is responsible for corporate governance of our Group. Mr. Chan obtained his diploma of business administration from the Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 1990. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Chan is also a mediator of both Hong Kong Mediation Accreditation Association Limited and the Hong Kong Mediation Centre. Mr. Chan has over 20 years of experience in the accounting, auditing and company secretarial fields in Hong Kong.

COMPLIANCE OFFICER

Mr. Ng Lai Po (吳麗寶) is the compliance officer of our Group. Mr. Ng is also an executive Director, our chief financial officer and joint company secretary.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our shareholders as a whole.

The Company adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules and had complied with the CG Code throughout the year ended 31 December 2019 and up to the date of this report, except for the deviation stipulated below.

As required by code provision A.2.1 of the CG Code, the roles of chairman and the chief executive officer should be separate and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Mr. Ng Lai Ming currently performs these two roles concurrently. Our Board believes that vesting the roles of both the chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group for more effective and efficient overall strategic planning for the Group. Our Board considers that the balance of power and authority within the Group will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. Our Board will from time to time review and consider splitting the roles of chairman of our Board and the chief executive officer of our Company to ensure that appropriate and timely arrangements are in place to meet changing circumstances.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Model Code") on terms no less exacting than the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Upon specific enquiries being made with all Directors, all Directors confirmed that they have complied with the required standards set out in Model Code throughout the year ended 31 December 2019.

BOARD DIVERSITY POLICY

The Company has a policy on diversity of Directors which requires that the Board shall comprise members with the following attributes in order to achieve a sufficient balance of knowledge and perspectives in discharging the Board's duties:

- commercial and business management skills and experience;
- industry specific knowledge and experience relevant to the Group;
- financial management skills and experience; and
- legal and compliance expertise.

The Company does not discriminate on the basis of gender, age and other personal backgrounds in assessing the suitability of candidates for appointment to the Board. Nonetheless, the Board also acknowledges stakeholders' expectation and international best practices calling for gender and ethnicity parity, etc. The Nomination Committee shall take the opportunity to enhance gender balance of the Board over time in the selection of candidates amongst those who are equally competent and possess the desired attributes.

BOARD OF DIRECTORS

The Board currently consists of seven Directors with four executive Directors and three independent non-executive Directors. The Board is responsible for leading and directing the Group's business through formulation of overall strategies and policies, evaluation of performance and overseeing the management functions. The functions and duties of the Board include, but are not limited to, convening general meetings, reporting on performance of the Board at general meetings, implementing resolutions passed at general meetings, formulating business plans and investment plans, preparing annual budget and final accounts, and preparing proposals on profit distribution, as well as performing other authorities, functions and responsibilities in accordance with the articles of association of our Company.

Executive Directors

Mr. Ng Lai Ming *(Chairman)*
Mr. Ng Lai Tong
Mr. Cheung King
Mr. Ng Lai Po

Independent non-executive Directors

Mr. Tai Wai Kwok
Ir Lo Kok Keung
Mr. Lau Chi Leung

Biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this report.

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses.

During the year, all Directors have participated in continuing professional development by attending training course organised by the Company and reading relevant materials on topics related to corporate governance and regulatory matters.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence and considers that each of them to be independent by reference to Rule 5.09 of the GEM Listing Rules.

BOARD COMMITTEES

The Board has established four committees, namely the audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and corporate governance committee (the "Corporate Governance Committee") on 19 June 2017, to oversee particular aspects of the Group's affairs. Each of the four committees has sufficient resources and its specific terms of reference that are approved by the Board, relating to its responsibilities, duties, powers and functions, which are posted to Stock Exchange's website at www.hkexnews.hk and the Company's website at www.mleng.com. All board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance at the Company's expenses. The board committees will regularly report back to the Board on decisions or recommendations made.

The participation of members of the Board and the four board committees and their attendance record of the relevant meetings in 2019, are set out as follows:

Composition of Board committees	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Executive Directors					
Mr. Ng Lai Ming *Chairman of the Board*	9/9	–	1/1	1/1	–
Mr. Ng Lai Tong	9/9	–	–	–	–
Mr. Cheung King	9/9	–	–	–	–
Mr. Ng Lai Po *Chairman of Corporate Governance Committee*	9/9	–	–	–	1/1
Independent Non-executive Directors					
Mr. Tai Wai Kwok *Chairman of Audit Committee*	8/9	4/4	1/1	1/1	1/1
Ir Lo Kok Keung *Chairman of Remuneration Committee*	8/9	4/4	1/1	1/1	1/1
Mr. Lau Chi Leung *Chairman of Nomination Committee*	8/9	4/4	1/1	1/1	1/1

– The Director is not a member

Audit committee

The primary duties of the audit committee are to review and approve our Group's financial reporting, risk management and internal control principles and maintain an appropriate relationship with our auditors. The audit committee is chaired by Mr. Tai Wai Kwok, who has the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

In 2019, the audit committee reviewed the integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgments contained in them, the Group's accounting principles and practices, development in accounting standards and associated impacts on the Group, risk management issues, audit findings, compliance, strategy summary and financial reporting matters, and the effectiveness of the Group's risk management and internal control systems. The audit committee discussed the above matters, where appropriate, with management and external auditor.

Remuneration committee

The primary duties of the remuneration committee are to review and approve our management's remuneration proposals, and to make recommendations on our policy and structure for the remuneration of our management. The remuneration committee has reviewed the remuneration of Directors for the year ended 31 December 2019 and make recommendations to the Board on salary revision to senior management and Directors for the year 2020.

Nomination committee

The primary duties of the nomination committee are to make recommendations on appointment of Directors and Board succession. The nomination committee has reviewed the independence of the independent non-executive Directors and considered retirement and re-election of Directors at the Company's forthcoming annual general meeting.

Corporate governance committee

The corporate governance committee was established by our Company pursuant to a resolution of the Board on 19 June 2017 with written terms of reference in compliance with D.3.1 of the Corporate Governance Code. The primary duties of our corporate governance committee are (i) to develop and review our Group's policies and practices on corporate governance and make recommendations to the Board; (ii) to review and monitor the training and continuous professional development of our Directors and senior management; (iii) to review and monitor our Group's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) to review our Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report. The corporate governance committee has reviewed and noted that internal control measures were in place and effective and that no non-compliance incidents have been observed. Furthermore, the corporate governance committee has assessed and put in place a risk monitoring and internal audit function to enhance internal control.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks to take in achieving the Company's strategic objectives.

The audit committee supports the Board in ensuring the effectiveness of the risk management and internal control of the Group and reports to the Board on any material issues identified. The Company has not established a separate internal audit department; however, procedures are in place to provide adequate resources and qualified personnel to carry out the duties of the internal audit function, including annual review of the effectiveness of risk management and internal control. In 2019, the Company has engaged an external independent consultant to conduct a review on the risk management and internal control system of the Group. The external consultant conducted an update risk assessment according to the Group's latest operation; key risks identified are recorded in a risk register and assigned to a risk owner who shall ensure such risks are continuously monitored and properly controlled according to the prescribed procedures.

The Group adopted a manual of policies and procedures to provide guidance on compliance with internal control and risk management in various operational and management functions, including but not limited to policies and procedures on revenue and purchase, treasury and risk management etc.

The internal control review scope for 2019 covered control procedures for financial reporting and disclosure, human resources and payroll, cash and treasury management, taxation and IT general control of our subsidiary in Shenzhen, the human resources and payroll, cash and treasury management and taxation of our subsidiary in Hong Kong. The findings of the review has been reported to the Board.

Based on review and procedures conducted, the Board considers that the Group's risk management and internal control systems are effective and adequate. However, the risk management and internal control systems of the Group are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the Company's auditor for the year ended 31 December 2019 is as below:

	HK$'000
Audit services provided to the Group	570
Non-audit services	–
	570

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the financial position of the Group. The Directors are not aware of any material uncertainties relating to events of conditions that may cast significant doubt upon the Group's ability to continue as a going concern and accordingly continue to adopt the going concern approach in preparing the financial statements.

The responsibilities of the Company's auditor on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 40 to 44 of this annual report.

COMPANY SECRETARY

The Company's joint company secretaries are Mr. Ng Lai Po and Mr. Chan Sun Kwong. Mr. Ng is an executive Director and an employee of the Company, while Mr. Chan is an external service provider. Mr. Ng is the primary contact person at the Company with Mr. Chan.

Please refer to the section headed "Directors and Senior Management" of this report for biographical details of the joint company secretaries of the Company.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

One or more shareholders holding not less than 10% of the paid up capital of the Company may convene an extraordinary general meeting by making a requisition in writing, specifying any business for transaction at such meeting, to the Directors or the company secretary.

To propose a candidate for election as a Director at a general meeting, a shareholder should deposit a written proposal, together with a written notice by the candidate indicating his willingness to be elected, to the Company either at its principal place of business in Hong Kong or its branch share registrar and transfer office in Hong Kong at least seven clear days before the date of the general meeting.

The Company believes that effective communication with its shareholders is essential for enhancing investors' understanding of the Group's business and performance. The Company maintains a corporate website at www.mleng.com to disseminate latest information about the Group. The Company's constitution document and terms of reference of board committees are also available for download at Company's website. There has been no change to the Company's constitution document throughout the year ended 31 December 2019. The chairman of the Board will attend, and endeavour to ensure the chairmen of various board committees to attend, general meetings to answer questions from shareholders.

Directors' Report

The Directors submit their report together with the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the trading and lease of construction machinery and spare parts. The principal activities of the subsidiaries of the Company are set out in note 14 to the consolidated financial statements. The segment information of the operations of the Group for the year ended 31 December 2019 is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW

A review on the Group's business for the year ended 31 December 2019 is set out under the section headed "Management Discussion and Analysis" of this annual report.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income on page 45 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

As at the date of this annual report, the Board is not aware of any shareholders who have waived or agreed to waive any dividends.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "AGM") will be held on Tuesday, 12 May 2020. The register of members of the Company will be closed from Thursday, 7 May 2020 to Tuesday, 12 May 2020 (both days inclusive), during which period no transfer of shares will be registered, for purpose of determining the right to attend and vote at the AGM. All transfer of the Company's shares together with the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong no later than 4:30 p.m. on Wednesday, 6 May 2020 in order for the holders of the shares to qualify to attend and vote at the AGM or any adjournment thereof.

FINANCIAL INFORMATION SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 116 of this annual report. Such summary does not form part of the audited consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$5,000.

SHARE CAPITAL

Details of movement in the Company's share capital during the year ended 31 December 2019 are set out in note 25 to the consolidated financial statements.

RESERVES

Details of movement in the Group's and the Company's reserves during the year ended 31 December 2019 are set out in note 26 and note 33 to the consolidated financial statements, respectively.

The Company's distributable reserves amounted to approximately HK$106.1 million as at 31 December 2019.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 19 June 2017 and no options have been granted, exercised or cancelled since then and up to the date of this annual report.

The Share Option Scheme is a share incentive scheme and provides our Company with an alternative means of recognizing, motivating and giving incentive to, rewarding, remunerating, compensating and/or providing benefits to selected participants (including but not limited to employees, directors, suppliers, customers and advisers of the Group) and for such other purposes as our Board may approve from time to time. The Share Option Scheme will provide the participants with an opportunity to have a personal stake in our Company with a view to achieving the following objectives:

(a) to motivate the participants to optimize their performance efficiency for the benefit of our Group; and

(b) to attract and retain or otherwise maintain relationships with the participants whose contributions are, will or expected to be beneficial to the growth of our Group.

The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 60,000,000 (being 10% of the shares in issue on the date when the shares of the Company first commenced dealing on the Stock Exchange) (the "General Scheme Limit"). The Company may seek approval of the shareholders in general meeting to refresh the General Scheme Limit provided that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit.

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being.

The subscription price for shares under the Share Option Scheme will be a price determined by the Board, but shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date of the option, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the offer date of the option; and (iii) the nominal value of the shares on the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the adoption date, after which no further options may be issued.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

Neither the Company, nor any of its subsidiaries, had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this report were:

Executive Directors

Mr. Ng Lai Ming *(Chairman and Chief Executive Officer)*
Mr. Ng Lai Tong
Mr. Cheung King
Mr. Ng Lai Po

Independent Non-executive Directors

Mr. Tai Wai Kwok
Ir Lo Kok Keung
Mr. Lau Chi Leung

In accordance with the provisions of the Company's articles of association, Mr. Ng Lai Ming, Mr. Ng Lai Tong and Mr. Cheung King will retire and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

Each of the independent non-executive Directors was appointed for an initial term of two years commencing on 21 July 2017 and subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the memorandum and articles of association of the Company.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual meeting has a service contract with the Company or any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

COMPETING INTERESTS

None of the Directors, substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) has any interest in a business which compete with the business of the Group during the year ended 31 December 2019 and up to and including the date of this report.

DEED OF NON-COMPETITION

The controlling shareholders of the Company has given an unconditional and irrevocable non-competition undertaking in favour of the Company and its subsidiaries on 19 June 2017 to protect the Group from any potential competition with the controlling shareholders. The controlling shareholders have confirmed full compliance with the terms of the non-competition undertaking during the year ended 31 December 2019. Furthermore, the Directors, including independent non-executive Directors, have carried out certain review procedures and nothing has come to their attention that there has been non-compliance with the terms of the non-competition undertaking during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed elsewhere in this annual report, none of the Directors or controlling shareholders, nor a connected party of any Directors or controlling shareholders, had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party during the year ended 31 December 2019.

DISCLOSURE OF INTERESTS

Directors' And Chief Executives' Interests And/Or Short Positions In Shares, Underlying Shares And Debentures Of The Company Or Any Associated Corporation

As at 31 December 2019, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and 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 and 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 entered 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, are as follows:

Long positions in shares of the Company

Director	Nature of interest	Number of shares	Percentage of the Company's issued shares capital
Mr. Ng Lai Ming (note 2)	Interest in a controlled corporation (note 1)	364,095,000	60.68%
Mr. Cheung King	Beneficial owner	31,005,000	5.17%
Mr. Ng Lai Tong	Beneficial owner	29,025,000	4.84%
Mr. Ng Lai Po	Beneficial owner	4,500,000	0.75%

Notes:

(1) The 364,095,000 shares are owned by JAT United Company Limited ("JAT United"), which is wholly owned by Mr. Ng Lai Ming. Mr. Ng Lai Ming is deemed to be interested in all the shares held by JAT United under the SFO.

(2) Mr. Ng Lai Ming is the brother of Mr. Ng Lai Tong and Mr. Ng Lai Po.

Directors' interests in an associated corporation of the Company

Director	Associated corporation	Nature of interest	Number of shares/Position	Percentage of the shareholding
Mr. Ng Lai Ming	JAT United	Beneficial owner	1/Long position	100%

Substantial Shareholders' Interests And/Or Short Positions In The Shares And Underlying Shares Of The Company

So far as the Directors are aware, as at 31 December 2019, the following person(s), not being a Director or chief executive of our Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO to be entered in the register referred to therein or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of our Group:

Long position in the shares of the Company

Shareholder	Capacity/Nature of Interest	Number of shares	Percentage of the Company's issued shares capital
JAT United (note 1)	Beneficial owner	364,095,000	60.68%
Ms. Law So Lin (note 2)	Interest of spouse	364,095,000	60.68%

Notes:

(1) JAT United is wholly owned by Mr. Ng Lai Ming. Mr. Ng Lai Ming is deemed to be interested in all the shares held by JAT United under the SFO.

(2) Ms. Law So Lin is the spouse of Mr. Ng Lai Ming, therefore she is deemed to be interested in all the shares in which Mr. Ng Lai Ming is interested in.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the Group's five largest customers in aggregate and the single largest customer accounted for approximately 68.9% (2018: 72.0%) and 25.0% (2018: 24.1%) of the Group's total revenue respectively.

During the year ended 31 December 2019, the Group's five largest suppliers in aggregate and the single largest supplier accounted for approximately 95.3% (2018: 96.9%) and 69.3% (2018: 65.7%) of the Group's total purchases respectively.

To the best of the knowledge of the Directors, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in these major customers or suppliers.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group during the year ended 31 December 2019 are disclosed in note 31 to the financial statements, none of which constituted connected transactions or continuing connected transactions under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group did not have any connected transactions which were subject to the reporting requirements prescribed in Chapter 20 of the GEM Listing Rules.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, the Directors are indemnified and secured harmless out of the assets of the Company against all losses and liabilities which may incur or sustain in execution of their duty, except such which they shall incur or sustain through their own fraud or dishonesty.

The Company has taken out appropriate directors' liability insurance coverage for the Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the minimum public float required under the GEM Listing Rules throughout the year and up to the date of this report.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, VMS Securities Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser which commenced on 21 July 2017, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at the date of this report which is required to be notified to the Company pursuant Rule 6A.32 of the GEM Listing Rules.

DIVIDEND POLICY

The Directors acknowledge the importance of stakeholders' engagement and would endeavour to share the Group's results with shareholders by way of a dividend. The portion and actual amount of distribution out of profits will be determined by the Directors having regard to a variety of factors, including but not limited to the Group's general financial condition, availability of cash, future plans and funding needs for expansion.

CHANGE IN AUDITORS IN PRECEDING 3 YEARS

As disclosed in the announcement of the Company dated 24 October 2018 in relation to the change of auditor, PricewaterhouseCoopers ("PwC") has resigned as auditor of the Company and its subsidiaries incorporated in Hong Kong with effect from 24 October 2018 as the Company cannot reach a mutual agreement with PwC on the audit fee for the financial year ended 31 December 2018. The Board, with the recommendation from the Company's audit committee, has appointed BDO Limited ("BDO") as the auditor of the Company with effect from 24 October 2018 to fill the casual vacancy following the resignation of PwC and to hold the office as auditor until the conclusion of the next annual general meeting of the Company.

The consolidated financial statements for the year ended 31 December 2019 have been audited by BDO, who will retire, and being eligible, offer themselves for re-appointment. A resolution to re-appoint BDO will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board of
M&L Holdings Group Limited
Ng Lai Ming
Chairman, Chief Executive Officer and
Executive Director

Hong Kong, 31 March 2020

Environmental, Social and Governance Report

INTRODUCTION

We are pleased to present our third Environmental Social and Governance ("ESG") Report of M&L Holdings Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). This report is prepared in accordance with the requirements set forth in the ESG Reporting Guide under Appendix 20 of the Listing Rules governing the GEM, it presents our major ESG policies, initiatives and performance of the Group for the year ended 31 December 2019 (the "Reporting Period").

SCOPE OF REPORT

This report covers the Group's principal businesses which represent our income sources from two business segments which are the tunnelling and foundation segments. The tunnelling segment is mainly engaged in the provision of specialized cutting tools and parts for construction equipment. The foundation segment is mainly engaged in the provision of fabricated construction steel works and equipment. The Group is also involved in the leasing, repair and maintenance of construction equipment. Our presentation covers the operation in Hong Kong, the PRC, Singapore and Australia.

STAKEHOLDERS ENGAGEMENT

In order to define our current and future sustainability strategies, it is important to ensure and understand our stakeholders' perspectives and expectations on the development and success of the Group and help us assess the potential impacts of our future business activities.

The Group will continue to build the effective communication with our key stakeholder group in various ways in order to address their concerns and feedback timely. We believe that the interests of all stakeholders must be taken into account in order to maintain the long-term relationships with our shareholders and investors, employees, customers, suppliers, government authorities and the public community. The areas of concern considered by the stakeholders are listed below:

Major Stakeholders	Major Communication Channels	Major Concerns
Shareholders and Investors	• Annual, Interim and Quarterly Reports • Annual General Meetings • Corporate Announcements and Circulars • Press release	• Business Development Plan • Financial and Business Stability • Information Disclosure and Transparency • Profitability
Employees	• Business Meetings and Briefings • Performance Appraisals and Evaluation • Staff Trainings • Team Building Activities	• Career Development and Training Opportunities • Compensation and Benefits • Health & Safety Work Environment • Personal Data Protection and Security
Customers	• Customer Service and Complaint Hotlines • Meetings and Correspondences	• Privacy Protection • Quality Products and Services
Suppliers	• Emails • Phone Calls • Procurement Meetings • Site Visit	• Compliance Operation • Cooperation on Fair Terms • Integrity • Quality and Stability
Community and Society	• Charitable and Donation Activities • Community Interactions • ESG Reporting • Social Media Channels	• Community Investment and Charitable Activities • Corporate Social Responsibilities
Government Authorities	• Information Disclosures • Institutional Visits • Major Meeting and Policy Consultation	• Compliance Operation • Corporate Governance • Environmental Protection

During the year, through a wide range of communication channels, we found that the major concerns of our key stakeholders vary from the environmental and energy saving measures, compliance operation, information disclosure to privacy protection and community involvement.

MATERIALITY ASSESSMENT

Following the discussion with our senior management and operational staff, we confirmed the same ESG issues relevant to the Group, the identified ESG issues have been assessed by considering their importance to our stakeholders as well as the Group. The ESG issues considered to be material are listed below:

ESG aspects as set forth in the ESG Reporting Guide	Areas of concern
A. Environmental	
A1 Emissions	Carbon emissions and waste management
A2 Use of resources	Electricity and paper consumption
A3 The environment and natural resources	Measures in reducing environmental impact
B. Social	
B1 Employment	Labour practices
B2 Health and safety	Workplace health and safety
B3 Development and training	Staff development and training
B4 Labour standards	Anti-child and forced labour
B5 Supply chain management	Supplier management
B6 Product responsibility	Product and service responsibility, quality assurance, customer service, safeguarding customer assets
B7 Anti-corruption	Anti-corruption policy
B8 Community investment	Community involvement

The Group has complied with the "comply or explain" provisions set out in the ESG Reporting Guide of Appendix 20 of GEM Listing Rules for the Reporting Period.

A. Environmental

The Group has established a set of management policies, mechanisms and measures on environmental protection to help ensure the sustainable development and operation of the Group. The Group strives to enhance the efficiency in the usage of energy and resources and also complies with relevant environmental regulations in Hong Kong, the PRC, Singapore and Australia.

During the Reporting Period, the Group did not note any cases of non-compliance relating to environmental laws and regulations in Hong Kong, the PRC, Singapore and Australia (2018: Nil).

A1. Emissions

Due to our business nature as trading and leasing, we do not have/produce a large amount of emissions.

Direct emissions from vehicles

The source of direct emissions is generated from the usage of private cars and light goods vehicles during our operation. During the year, a new private car was purchased for the operation in Australia. In order to facilitate the efficient use of our vehicles, usage of vehicles is subjected to formal application and booking. The Group is always trying to combine several applications to enhance the least usage of vehicles, hence, producing the least emissions to the environment.

Regarding the Group's approximate amount of nitrogen oxide ("NOx"), sulphur oxides ("SOx") and particulate matter ("PM") produced from our operation, the figures are shown in the table below:

	Nitrogen oxide ("NOx") (Grams)		**Sulphur oxides ("SOx") (Grams)**		**Particulate matter ("PM") (Grams)**	
Region	**2019**	2018	**2019**	2018	**2019**	2018
Hong Kong	**78,077**	89,883	**196**	220	**3,503**	4,010
The PRC	**18,497**	24,257	**59**	61	**1,360**	1,784
Singapore	**1,251**	1,251	**14**	19	**92**	92
Australia	**808**	–	**10**	–	**60**	–
Total	**98,633**	115,391	**279**	300	**5,015**	5,886

Direct greenhouse gas ("GHG") emissions from vehicles

Due to the usage of private cars and light goods vehicles, the Group has identified the relevant greenhouse gas emissions in relation to the amounts of fuel consumed during our operation. Regarding the Group's approximate amount of carbon dioxide ("CO_2") emissions, methane ("CH_4") emissions and nitrous oxide ("N_2O") emissions produced from our operation, the figures are shown in the table below:

	Total GHG emissions (Kilograms)	
Region	**2019**	2018
Hong Kong	**35,523**	39,861
The PRC	**10,720**	10,951
Singapore	**2,520**	3,456
Australia	**1,761**	–
Total	**50,524**	54,268

As a result, during the year, the above two figures of direct emissions and direct GHG emissions from vehicles represent a reduction compared to the direct emissions and total GHG emissions in 2018. The Group will keep monitoring on the emissions data in order to enhance the least usage of vehicles in the future.

Energy indirect emissions — Carbon emissions

The major source of our indirect carbon emissions is the electricity consumed at the workplace. In order to reduce our carbon footprint, we have implemented some measures, please refer to the "A2 Use of resources" section below. Regarding the Group's approximate amount of CO_2 generated from our electrical usage, the figures are shown in the table below:

	Carbon dioxide (CO_2) generated equivalent (Tonnes)	
Region	**2019**	2018
Hong Kong	**27**	33
The PRC	**7**	7
Singapore	**4**	5
Australia	**3**	–
Total	**41**	45

The Group has implemented relevant policies and measures on the environmental and energy saving aspects and encourage the employees to follow. During the year, the figure represents a reduction of indirect emission of approximately 11% in the electricity consumed at the workplace compared to the emission rate of 2018. The Group will continue to be aware of the environmental and energy saving issue and encourage the employees to work with the Group's policies.

A2. Our Use of Resources

The resources used by the Group are principally attributed to electricity, water and paper consumed at our offices. We have implemented a series of green policy so as to utilise our resources consumption as well as educating our staff in the awareness of environmental protection via the Group's daily business operations.

Use of electricity

Electricity is consumed during daily business operations in our offices through the use of indoor lighting, air-conditioning, functioning of office equipment, function of equipment related to repair and maintenance etc. Regarding the Group's approximate amount of electricity consumption, the figure is shown in the table below:

	Kilowatt hours (kWh)	
Region	**2019**	2018
Hong Kong	**52,653**	60,534
The PRC	**8,747**	8,739
Singapore	**8,371**	11,608
Australia	**2,496**	–
Total	**72,267**	80,881

In order to enhance the environment protection and save energy consumption, the Group has established energy saving measures:

- The Group is using incandescent lighting in our office and warehouse;
- Purchase of environmentally friendly electronic appliances;
- Lighting should be switched off while staff are off duty or when the place is not in use;
- Staff is encouraged to switch off all non-essential items (i.e. photocopiers) during non-office hours;
- Setting of air-conditioning within the environmental-friendly level (around 25 degrees Celsius).

Water usage

Our water usage is relatively minimal through our business activities. The majority of our water usage comes from water supplies for our offices. Regarding the Group's approximate amount of water usage, the figure is shown in the table below:

	Cubic meters	
Region	**2019**	2018
Hong Kong	**518**	451
The PRC	**30**	34
Singapore	**163**	118
Australia	**–**	–
Total	**711**	603

Although the water is considered minimal, we encourage staff to consume water in a considerate way by reminding them to turn-off water tap after use.

Packaging materials and paper usage

The major packaging materials used in the Group are wooden boxes which are provided and packed by suppliers and the Group transfers the goods to customer from warehouse and from suppliers without unloading the packaging materials. Therefore, there is no packaging materials need to be disposed of during the logistics process. Regarding the Group's approximate the paper usage at office, the figure is shown in the table below:

	Number of A4 paper consumed	
Region	**2019**	2018
Hong Kong	**80,500**	78,500
The PRC	**8,000**	4,500
Singapore	**9,889**	10,660
Australia	**3,000**	–
Total	**101,389**	93,660

To reduce the amount of paper used, we do encourage staff to be mindful when printing documents and make use of double sided printing where possible. Non-essential items should be used in e-format instead of printing out and any documents that are no longer in use should be shredded and recycled.

Regarding the use of resources, the above figures represent a reduction of the usage of electricity. However, there is an increase of the water waste and paper usage aspects of approximately 18% and 8% respectively compared to the usage of 2018. Due to the subsidiary newly incorporated in Australia, the environmental measures and data are still at the beginning stage, the Group will monitor and compare the emission data in annual basis for better controls on the energy and resources usage. For the overall business and operation, the Group will promote the energy and resources saving measures to staff in order to meet the environmental target in the future.

A3. *Environmental protection and natural resources*

As we are primarily a trading company including ancillary services, no significant environmental issue was noted in our business activities within the Reporting Period, and we have not produced a notable level of air or water pollutants. Our waste is mainly attributed to our daily activities such as regular trash can waste and some packaging wastes, which are non-hazardous. The major land waste is the paper used for job management and office documents. We are committed to promoting waste reduction at source, therefore the Group has always strived to reduce and handle the land waste. Our non-hazardous waste is dealt with appropriately and is disposed of in a proper manner by qualified waste disposal company in each business region.

As we understand that there will be more concerns from government, companies and public over carbon emissions, we will act in accordance with the ESG provisions as set forth by the Stock Exchange. We will continue to report our environmental key performance indicators ("KPI's") and information as well as our social information in accordance with the provisions.

B. Social Commitment

B1. Employment

Our Group realises the importance of employees and their role and impact on the Group to achieve our aims and objectives of being highly qualified supplier regarding construction machinery and spare parts for the construction and tunnelling sectors.

To maintain a happy, healthy, safe and productive working environment, we have implemented procedures and policies in all aspects of the Group's business operations and integrated into our employee handbook and human resources policy. Our Group is committed to provide a healthy work-life balance for employees and a comfortable working environment. Our Group is in compliance with the relevant laws relating to compensation, dismissal, equal opportunity, anti-discrimination, rest periods, working hours, and other benefits and welfare.

In our employee handbook, we have outlined the general procedures and practices of the Group related to employment, compensation and benefits. The terms included compensation and dismissal, working hours, rest periods and other benefits and welfare has been specified in our employment contract. To ensure diversity and equality, our selection process is non-discriminatory and is solely based on the employee's performance, experience and skills. A whistle blowing channel has been in place for our employees to raise any concerns in good faith if they have their concerns and address in a proper manner without any fear of reprisal or receiving any negative impacts. The Group also welcomes employees to discuss their targets and expectations in job advancement and career development with the senior management if they have any ideas or difficulties regarding their job.

There were no non-compliance cases noted in relation to employment laws and regulations during the Reporting Period (2018: Nil).

B2. Health and Safety

Ensuring the health and safety of our employee is an integral part of our business activities. Therefore, the Group is dedicated to maintaining a safe, hygienic and productive workplace by minimising the potential risk of accidents, injuries and exposure in relation to health risks.

We encourage our employees to keep the work place tidy to minimise accidental incident. We have policies in place and are in compliance with the relevant laws pertaining to health and safety and providing a healthy safe work environment as well as protecting employees from occupational hazards.

The Group did not violate any health and safety laws and regulations during the Reporting Period (2018: Nil).

B3. Development and Training

The Group recognized that that human capital is always playing a large part of our business operation. We understood that training is always an important way to improve the overall quality and provide comprehensive development of the employees. The group provides adequate development and training for our employees to ensure that they maintain a high level of competency to keep our competitive advantages by updating the current trends and techniques. We have established a series of induction training to all newly-hired employees so as to let them acknowledge the Group's working environment, working procedures and other safety working standards. Our warehouse and workshop staff also receives training to enable them to acquire necessary skills and knowledge on health and safety related procedures before their duties are assigned. We also encourage employees to take part in external training to acquire necessary technical skills and enhance team spirit.

B4. Labour Standards

Our Group has committed to maintain and keep a work environment that is free of discrimination and all employees are treated equally regardless of age, marital status, pregnancy, race and religion. All staffs are working on a voluntary basis with agreed terms between employee and the Group to ensure they are under protection of labour law from different jurisdictions.

During the Reporting Period, the Group has complied with all relevant labour standards. No violation regarding the age of employment and labour dispute has occurred between the Group and employees (2018: Nil).

B5. Supply Chain Management

Our largest supplier is Palmieri from Italy with high reputation and credibility which has appointed us as its sole and exclusive agent for certain products and locations. Other than Palmieri, most of the products we purchased are branded products based on the demand of our customers under the agreed contracts and/or purchase orders. We do a regular site visit to supplier to ensure the quality of products and quality control procedures are fulfilled our Group's requirements and the expectation of our customers.

Continuously, we will incorporate sustainability considerations into our sourcing practices including procurement of other office equipment and communicate with suppliers on their environmental and social responsibilities to identify opportunities to improve their current environmental and social practices.

B6. Product Responsibility

Our Group is committed to providing high quality cutting tools and other supplied products regarding foundation and tunnelling segments. We have measures in place to deal with the issues of product quality to ensure all products that are supplied to our customers meet our requirements for product safety and quality. Assessment of supplier's background and the quality of their products is performed by the Group before admitted as qualified suppliers.

Integrated Engineering Solutions

The Group provides integrated engineering solutions in connection with specialised cutting tools and parts for construction equipment, fabricated construction steel works and equipment, specialised construction equipment and ancillary services. Integrated engineering solutions combine engineering-oriented professional expertise with application knowledge, including project analysis, ongoing advice, procurement and inventory management, provision of repair and maintenance services, the leasing and supply of specialised construction equipment and provision of engineering solutions to fabricated construction steel works and equipment. Our experience in supplying specialised cutting tools and parts for construction equipment can provide tailor-made solutions for our customers to suit their specific needs.

Quality assurance

The Group is committed to providing customers with high-quality services and solutions. In this regard, we have established quality control procedures in respect of branded products and our tailor-made products.

The Group conducts inspections with our customers on the incoming products to check its specification, functionalities and performance for branded products. Supplier is required to provide quality certificates on the relevant products.

For our tailor-made products, internal control manual has been used as guideline throughout the production process to ensure the specification of the end product meet the requirements before delivery to our customers. We also offer incidental repair and maintenance services to our customers to enhance our after-sale service capabilities under the integrated engineering solutions.

B7. Anti-Corruption

A system with good moral integrity and anticorruption mechanism is the cornerstone for a sustainable and healthy development of the Group. To maintain a workplace free from corruption and bribery, the Group has established anti-corruption policies and procedures with reference to "Prevention of Bribery Ordinance of Hong Kong", "The Anti-money Laundering Law of the People's Republic of China" and "Prevention of Corruption Act of Singapore" issued by regulatory body in respective countries. The policy stated the details of Section 9 (1) of the Prevention of Bribery Ordinance of Hong Kong. It is strictly implemented in the operation of the Group. The policy also included integrity rules regarding offer and acceptance of advantages, business referral and other related information which strictly require directors and staff to follow and be aware of it.

In terms of the reporting of abnormal and corruption behavior, the Group has also established a whistle blowing policy under which a reporting mailbox is set up to provide a channel for employees to report violations, corruption, bribery and suspicious incidents.

Our Group will continuously provide full support to employees to raise their concerns in good faith and the aforementioned issue will be dealt with by management in a professional and appropriate manner.

B8. Community Investment

The Group has always dedicated itself to insist on repaying the society, actively performing social responsibility of corporate citizen. To facilitate the development of community services, the Group has made donations to Orbis and Lifewire to fight against avoidable blindness in developing nations and to provide medical funding support to the patients in 2018 and 2019 respectively.

The Group understands and recognizes that there are those who are less fortunate in society. We will keep looking for worthy charities or humanitarian causes to support through monetary donations or other means to create a positive impact on the local society.

ENVIRONMENTAL PERFORMANCE INDICATORS

Aspect A1: Emissions

Performance indicator		**2019 Data**	2018 Data	**Stock Exchange ESG Reporting Guide KPI**
Emissions	Nitrogen oxide emission (Gram)	**98,633**	115,391	KPI A1.1
	Particulate matter emission (Gram)	**5,015**	5,886	KPI A1.1
	Sulphur oxides emission (Gram)	**279**	300	KPI A1.1
	Total GHG emissions generated equivalent (CO_2) (Kg) (Direct emission from vehicle usage)	**50,524**	54,268	KPI A1.2
	Carbon dioxide generated equivalent (CO_2) (Ton) (Indirect emission from electricity consumed)	**41**	45	KPI A1.2

Aspect A2: Use of resources

Performance indicator		**2019 Data**	2018 Data	**Stock Exchange ESG Reporting Guide KPI**
Energy	Electricity consumption (Kwh)	**72,267**	80,881	KPI A2.1
Water	Water consumption (Cubic meters)	**711**	603	KPI A2.2
Paper	Number of A4 Paper consumption (Piece)	**101,389**	93,660	KPI A2.5

Independent Auditor's Report

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To the shareholders of M&L Holdings Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of M&L Holdings Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 115, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Impairment assessment of trade receivables

Refer to note 4.7(ii), note 5.1(c) and note 18 to the consolidated financial statements

As at 31 December 2019, the Group had trade receivables amounting to HK$105,753,000 before allowances as set out in note 18. The Group has assessed impairment for its receivables based on expected credit losses model under HKFRS 9 Financial Instruments ("HKFRS 9"). Loss allowances for expected credit losses amounting to HK$5,880,000 have been made for the trade receivables as at 31 December 2019.

Assessing expected credit losses on trade receivables is a subjective area as it requires application of judgment and uses of estimates. To determine whether impairment provision is required, management considers a wide range of factors such as the creditworthiness, the past collection history of each customer, the probability of insolvency or significant financial difficulties of the customer and default or significant delay in payment according to the contract terms.

We have identified impairment assessment of trade receivables as a key audit matter due to considerable amount of judgment and estimation being required in conducting impairment assessment as mentioned in the foregoing paragraph.

Our procedures in relation to management's assessment of expected credit losses on trade receivables included:

- Assessing whether the Group's impairment policy is in accordance with the requirements under HKFRS 9;

- Obtaining a list of receivables which were past due and assessing the recoverability of these outstanding receivables beyond credit period with provision made through discussion with management and with reference to supporting information provided by management, such as historical payment trend of the customers;

- Assessing the recoverability of these balances by considering, among others, subsequent settlement on a sample basis;

- Testing the accuracy of ageing of trade receivables balances at year end to the underlying invoices on a sample basis; and

- Assessing whether the receivables are credit-impaired which include how reasonably management has incorporated in their assessment of forward-looking information including expected changes in economic and financial conditions which is expected to cause a significant change in the customers' ability to meet their debt obligations.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

Independent Auditor's Report

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate no. P04434

Hong Kong, 31 March 2020

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2019 HK$'000	2018 HK$'000
Revenue	6	**141,190**	113,933
Cost of sales	7	**(100,959)**	(80,668)
Gross profit		**40,231**	33,265
Other income	8	**14**	190
Other losses, net	8	**(186)**	–
Exchange losses		**(832)**	(3,757)
Selling expenses	7	**(6,644)**	(4,698)
Administrative expenses	7	**(33,292)**	(29,363)
Operating loss		**(709)**	(4,363)
Finance income	11	**270**	257
Finance costs	11	**(1,686)**	(1,072)
Loss before income tax		**(2,125)**	(5,178)
Income tax credit	12	**801**	152
Loss for the year		**(1,324)**	(5,026)
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Currency translation differences		**(127)**	(669)
Total comprehensive income		**(1,451)**	(5,695)
(Loss)/profit for the year attributable to:			
Equity holders of the Company		**(1,334)**	(4,951)
Non-controlling interests		**10**	(75)
		(1,324)	(5,026)
Total comprehensive income attributable to:			
Equity holders of the Company		**(1,453)**	(5,603)
Non-controlling interests		**2**	(92)
		(1,451)	(5,695)
Loss per share			
– Basic and diluted (expressed in HK cents per share)	13	**(0.22)**	(0.83)

Consolidated Statement of Financial Position

	Notes	As at 31 December 2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Prepaid land premium	15(a)	**–**	5,356
Property, plant and equipment	15(b)	**18,557**	22,303
Right-of-use assets	15(c)	**13,921**	–
Deposits	18	**448**	961
Other asset at fair value through profit or loss	16	**4,744**	–
Deferred income tax assets	24	**1,955**	1,118
		39,625	29,738
Current assets			
Inventories	17	**34,496**	28,763
Trade and other receivables	18	**113,033**	97,313
Tax recoverable		**480**	466
Cash and cash equivalents	19	**25,109**	33,916
		173,118	160,458
Current liabilities			
Trade and other payables	20(a)	**53,579**	37,543
Contract liabilities	20(b)	**–**	899
Dividend payable	21	**7,980**	7,980
Amounts due to directors	22	**5,701**	6,132
Bank borrowings	23(a)	**24,000**	17,000
Lease liabilities	23(b)	**2,932**	–
Finance lease liabilities	23(c)	**–**	1,551
Current income tax liabilities		**162**	74
		94,354	71,179
Net current assets		**78,764**	89,279
Total assets less current liabilities		**118,389**	119,017
Non-current liabilities			
Lease liabilities	23(b)	**4,038**	–
Finance lease liabilities	23(c)	**–**	3,042
Deferred income tax liabilities	24	**1,424**	1,572
Other provision		**295**	320
		5,757	4,934
Net assets		**112,632**	114,083

Consolidated Statement of Financial Position

	Notes	As at 31 December 2019 HK$'000	2018 HK$'000
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Share capital	25	**6,000**	6,000
Reserves	26	**105,182**	106,635
		111,182	112,635
Non-controlling interests		**1,450**	1,448
Total equity		**112,632**	114,083

The consolidated financial statements on pages 45 to 115 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf by:

Ng Lai Ming
Executive Director

Ng Lai Po
Executive Director

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Share capital HK$'000	**Reserves** HK$'000 (note 26)	**Share premium** HK$'000 (note 26)	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2018	6,000	53,706	63,332	123,038	1,540	124,578
Comprehensive income:						
Loss for the year	–	(4,951)	–	(4,951)	(75)	(5,026)
Other comprehensive income:						
Currency translation differences	–	(652)	–	(652)	(17)	(669)
Total comprehensive income for the year	–	(5,603)	–	(5,603)	(92)	(5,695)
Transactions with owners:						
Dividends declared to the equity holders of the Company (note 28)	–	(4,800)	–	(4,800)	–	(4,800)
At 31 December 2018	6,000	43,303	63,332	112,635	1,448	114,083
At 1 January 2019	**6,000**	**43,303**	**63,332**	**112,635**	**1,448**	**114,083**
Comprehensive income:						
(Loss)/profit for the year	**–**	**(1,334)**	**–**	**(1,334)**	**10**	**(1,324)**
Other comprehensive income:						
Currency translation differences	**–**	**(119)**	**–**	**(119)**	**(8)**	**(127)**
Total comprehensive income for the year	**–**	**(1,453)**	**–**	**(1,453)**	**2**	**(1,451)**
At 31 December 2019	**6,000**	**41,850**	**63,332**	**111,182**	**1,450**	**112,632**

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Net cash used in operations	27(a)	**(3,453)**	(29,026)
Interest received		**270**	257
Income tax (paid)/recovered		**(100)**	2,394
Net cash used in operating activities		**(3,283)**	(26,375)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,068)**	(12,073)
Payments for acquiring the other asset at fair value through profit or loss		**(5,019)**	–
Proceeds from disposal of property, plant and equipment	27(b)	**89**	–
Deposit paid for acquiring property, plant and equipment		**–**	(513)
Net cash used in investing activities		**(7,998)**	(12,586)
Cash flows from financing activities			
Proceeds from borrowings		**7,000**	3,000
Repayment of principal portion of the lease liability (2018: capital element of finance lease payments)		**(2,804)**	(1,665)
Decrease in pledged bank deposits		**–**	2,536
Interest paid		**(1,686)**	(1,072)
Dividends paid		**–**	(4,800)
Advance from a director		**–**	5,000
Net cash generated from financing activities		**2,510**	2,999
Decrease in cash and cash equivalents		**(8,771)**	(35,962)
Cash and cash equivalents at beginning of year		**33,916**	70,101
Currency translation differences		**(36)**	(223)
Cash and cash equivalents at end of year	19	**25,109**	33,916

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

M&L Holdings Group Limited (the "Company") was incorporated in the Cayman Islands on 24 September 2015 as an exempted company with limited liability. The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 July 2017.

The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 10th Floor, Empress Plaza, 17–19 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in trading and lease of construction machinery and spare parts.

2. BASIS OF PREPARATION

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

The financial statements have been prepared under the historical cost basis except for other asset at fair value through profit or loss which is measured at fair value.

The financial statements are presented in Hong Kong dollars ("HK$"), which is same as the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements, are disclosed in note 5.

3. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new or revised HKFRSs — effective 1 January 2019

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2019:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3 Business Combinations; HKAS 12 Income Taxes; and HKAS 23 Borrowing Costs

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

HKFRS 16 Leases ("HKFRS 16")

(i) Impact on the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease ("HK(IFRIC)-Int 4"), HK(SIC)-Int 15 Operating Leases - Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with a narrow exception of this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to notes (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 if any, as an adjustment to the opening balance of accumulated losses at the date of initial application. 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. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

(a) Adoption of new or revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 Leases (Continued)

(i) Impact on the adoption of HKFRS 16 (Continued)

The following tables summarised the impact of transition to HKFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019:

	Carrying amount at 31 December 2018 as originally reported HK$'000	Capitalisation of lease contracts under HKFRS 16 HK$'000	Reclassification under HKFRS 16 HK$'000	Carrying amount at 1 January 2019 as restated HK$'000
Non-current assets				
Prepaid land premium (note 15(a))	5,356	–	(5,356)	–
Property, plant and equipment (note 15(b))	22,303	–	(5,578)	16,725
Right-of-use assets	–	5,186	10,934	16,120
	27,659	5,186	–	32,845
Current liabilities				
Lease liabilities	–	1,256	1,551	2,807
Finance lease liabilities	1,551	–	(1,551)	–
	1,551	1,256	–	2,807
Non-current liabilities				
Lease liabilities	–	3,930	3,042	6,972
Finance lease liabilities	3,042	–	(3,042)	–
	3,042	3,930	–	6,972

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

(a) Adoption of new or revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 Leases (Continued)

(i) Impact on the adoption of HKFRS 16 (Continued)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Operating lease commitment as at 31 December 2018	7,258
Less: Commitments relating to short-term leases with lease terms end within 31 December 2019	(232)
Less: Future interest expenses	(820)
Less: Adjustment for service components	(1,345)
Add: Finance lease liabilities as of 31 December 2018 (note 3a(v))	4,593
Add: Future interest expenses of finance lease liabilities as of 31 December 2018	325
Total lease liabilities as at 1 January 2019	9,779

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 4.9%.

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

(a) Adoption of new or revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 Leases (Continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an assets (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

The new accounting policies as leasee for leases under HKFRS 16 are set out in note 4.20A.

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

(a) Adoption of new or revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 Leases (Continued)

(iv) Accounting as a lessor

The Group has leased out certain of its machinery and equipment. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application, i.e. 1 January 2019. 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.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the leasee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 at amount equals to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied the practical expedients that relied on assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review as at 1 January 2019.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months from the date of initial application of HKFRS 16, i.e. where lease term ends on or before 31 December 2019, and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

(a) Adoption of new or revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 Leases (Continued)

(v) Transition (Continued)

The Group has also leased certain machinery and equipment which previously were classified as finance leases under HKAS 17. As the Group has elected to adopt the cumulative effect method over the adoption of HKFRS 16, for those finance leases under HKAS 17, the right-of-use assets and the corresponding lease liabilities at 1 January 2019 were the carrying amount of the lease assets and lease liabilities under HKAS 17 immediately before that date. For those leases, the Group has accounted for the right-of-use assets and the lease liabilities applying HKFRS 16 from 1 January 2019.

Upon adoption of HKFRS 16 on 1 January 2019, the right-of-use assets arising from machinery and equipment are presented separately as right-of-use assets. In addition, all finance lease liabilities of HK$4,593,000 were reclassified from finance lease liabilities to lease liabilities.

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met, instead of at fair value through profit or loss.

Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

(a) Adoption of new or revised HKFRSs — effective 1 January 2019 (Continued)

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

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

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKAS 12 Income Taxes

Amendments to HKAS 12 clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKAS 23 Borrowing Costs

Amendments to HKAS 23 clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

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

The following new or 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.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

1 Effective for annual periods beginning on or after 1 January 2020

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred or removed. Early application of the amendments continues to be permitted.

The directors anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors are currently assessing the possible impact of these new or revised standards on the Group's results and financial position in the first year of application. The directors consider that these new standards and amendments are unlikely to have a material impact to the Group's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

4.1 Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interests recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Subsidiaries (Continued)

(ii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statement of the investee's net assets including goodwill.

4.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors who make strategic decisions.

4.3 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statement is presented in HK$, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains or losses that relate to borrowings and cash and cash equivalents are presented in consolidated statement of comprehensive income within "administrative expenses".

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

– all resulting exchange differences are recognised in other comprehensive income.

4.4 Property, plant and equipment

Buildings comprise mainly offices and workshops. Except for freehold land, all property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Freehold land is stated at historical cost less accumulated impairment losses, if any.

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

Motor vehicles classified as finance lease commences depreciation from the time when the assets become available for its intended use. Depreciation of property, plant and equipment is calculated using the straight line method to allocate their cost to their residual values over its estimated useful lives, as follows:

Machinery and equipment	10%–25%
Motor vehicles	25%
Motor vehicles under finance leases	25% or over the lease term, whichever is shorter
Furniture, fixtures and equipment	25%
Leasehold improvements	20% or over the lease term, whichever is shorter
Freehold land	Not depreciated
Buildings	1.7%–2.5%

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Property, plant and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 4.6).

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains, net" in consolidated statement of comprehensive income.

4.5 Prepaid land premium

Prepaid land premium is recorded at cost less subsequent accumulated amortisation and accumulated impairment losses, if any. Prepaid land premium is amortised using the straight-line method over their lease team.

4.6 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4.7 Financial Instruments

(i) Financial assets

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Financial Instruments (Continued)

(i) Financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortised cost

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

– Fair value through other comprehensive income ("FVOCI")

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

– Fair value through profit or loss ("FVTPL"):

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Financial Instruments (Continued)

(i) Financial assets (Continued)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

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

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

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECL based on lifetime ECL. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Financial Instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

The Group defines a financial asset as in default when: (1) there is a breach of financial covenants by the debtor; or (2) it is becoming probable that the borrower or guarantor will enter bankruptcy or other financial reorganisation.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 365 days past due, taking into account of settlement pattern and behaviour of the debtors, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

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

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iii) Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, amounts due to directors and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (note 4.14).

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Financial Instruments (Continued)

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowances, being the ECL provision measured in accordance with principles of the accounting policy set out in note 4.7(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

4.9 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 4.7 for further information about the Group's accounting for trade receivables and for a description of the Group's impairment policies.

4.10 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with financial institutions with original maturities of three months or less.

4.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

4.12 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

4.14 Borrowing costs

All borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

4.15 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Current and deferred income tax (Continued)

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Employee benefits

The Group operates post-employment schemes, including defined contribution pension plans.

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time to leave.

(ii) Pension obligations

The Group participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income up to a maximum of HK$1,500 per employee per month. The assets of this pension scheme are held separately from those of the Group in independently administered funds. Other than the contributions, the Group has no further obligation for the payment of retirement and other postretirement benefits of its employees in Hong Kong.

In accordance with the rules and regulations in People's Republic of China ("the PRC"), the PRC based employees of the Group participate in a defined contribution retirement benefit plan organised by the relevant provincial government in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The provincial government undertakes to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plan described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other postretirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

In accordance with the rules and regulations in Singapore, the Group makes contributions to the Central Provident Fund (CPF) for its employees in Singapore. CPF contributions are recognised as compensation expenses in the same period as employment that gives rise to the contributions.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Employee benefits (Continued)

(iii) Bonus plans

The expected costs of bonus payment are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are measured at the amounts expected to be paid when they are settled.

4.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to anyone item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

4.18 Revenue recognition

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

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

(i) provides all of the benefits received and consumed simultaneously by the customer;

(ii) creates or enhances an asset that the customer controls as the Group performs; or

(iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Revenue recognition (Continued)

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

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

The Group recognised revenue as the following basis:

(i) Revenue from sales of goods is recognised at a point in time when the goods are delivered to and have been accepted by customers. Repair and maintenance services income is recognised at a point in time when the service are rendered to customers. There is generally only one performance obligation for these income. In general, no variable consideration like rebates, refunds, right of return are offered to customers. No element of financing deemed present as the sales are made with a credit terms ranged up to 270 days, which is consistent with market practice.

(ii) Rental income from machinery under operating lease is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Interest income is accrued on a time basis using the effective interest method by applying applicable interest rate on (i) the amortised cost (i.e. gross carrying amount less loss allowances for credit-impaired financial assets; or (ii) the gross carrying amount for non-credit impaired financial assets.

(iv) Inspection charges are recognised when services are rendered.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 Contract costs, contract assets and contract liabilities

Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories or property, plant and equipment.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to subcontractors). Other costs of fulfilling a contract, which are not capitalised as inventories, or property, plant and equipment, are expensed as incurred.

Capitalised contract costs are stated as cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the assets relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of goods or services to which the costs relate. The accounting policy for revenue recognition is set out in note 4.18.

Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 4.18) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 4.7(ii). Loss allowances for contract assets are measured at an amount equal to lifetime ECL. Contract assets are reclassified to receivable when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 4.18). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 Leases

A. Accounting policies applicable from 1 January 2019

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

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 assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are 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 uses the Group's incremental borrowing rate.

The following payments for the right-of-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 the 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 Leases (Continued)

A. Accounting policies applicable from 1 January 2019 (Continued)

Lease liability (Continued)

Subsequent to the commencement date, the Group measures 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 substance fixed lease payments or a change in assessment to purchase the underlying asset.

Accounting as a lessor

The Group has leased out certain machinery and equipment to a number of leasees. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

B. Accounting policies applied until 31 December 2018

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

(i) Operating lease — as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(ii) Operating lease — as a lessor

When assets are leased out under an operating lease, the asset is included in the consolidated statement of financial position based on the nature of the asset.

Lease income on operating leases is recognised in the consolidated statement of comprehensive income over the term of the lease on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 Leases (Continued)

B. Accounting policies applied until 31 December 2018 (Continued)

(iii) Finance lease — as a lessee

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

4.21 Other asset

Other asset at fair value through profit or loss represent upfront payment for life insurance policy. Other asset are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

4.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statement in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

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

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

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

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

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

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

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5.1 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are as follows:

(a) Allowance for inventories

Management carries out inventory review on a product-by-product basis at the end of each reporting period and provides allowance for obsolete items. A considerable amount of judgment and estimates is required in determining such allowance. If conditions which have an impact on the net realisable value of inventories deteriorate, additional allowances may be required. Management reviews the inventory ageing analysis at the end of the reporting period and identifies slow-moving inventories that are no longer suitable for consumption and saleable. Management estimates the net realisable value for such inventories based primarily on the latest invoice price and current market conditions.

(b) Estimates of current and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation, the timing of payment of the related taxation and the implementation of these taxes. The Group recognised income tax and other taxes based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalised with the local tax authorities.

Deferred taxation relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Such assessment requires significant judgement by the management. Where the expectations are different from the original estimate, such differences will impact the recognition of deferred taxation in the periods in which such estimate is changed.

(c) Loss allowances of trade and other receivables

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires significant judgment and estimation, in particular, the assessment of a significant increase in credit risk and the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

5.1 Key sources of estimation uncertainty (Continued)

(c) Loss allowances of trade and other receivables (Continued)

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Details of the key assumptions and inputs used are set out in note 35(a)(ii).

6. REVENUE AND SEGMENT INFORMATION

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Timing of revenue recognition – At a point in time		
– Sales of goods	**137,512**	111,298
– Repair and maintenance services income	**2,492**	2,087
	140,004	113,385
Revenue from other sources		
– Machinery rental income	**1,186**	548
	141,190	113,933

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's chief operating decision-maker for the purposes of resources allocation and assessment of segment performance. The executive directors considered the nature of the Group's business and determined that the Group has two reportable operating segments as follows:

(i) Tunnelling – Supply of specialised cutting tools and parts for construction equipment

(ii) Foundation – Supply of fabricated construction steel works and equipment

The executive directors assess the performance of the operating segments based on revenue and gross profit margin of each segment. As the Group's resources are integrated and there are no discrete operating segment assets and liabilities for the tunnelling and foundation business segments reported to the chief operating decision maker, accordingly, no operating segment assets and liabilities are presented.

Segment revenue reported represents revenue generated from external customers. There were no inter-segment sales during the year ended 31 December 2019 (2018: Nil). The accounting policies of the reportable segments are the same as the Group's accounting policies.

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2019 is as follows:

	Tunnelling HK$'000	Foundation HK$'000	Total HK$'000
Segment revenue (all from external customers)	131,319	9,871	141,190
Cost of sales	(94,762)	(6,197)	(100,959)
Segment results	36,557	3,674	40,231
Gross profit %	27.84%	37.22%	28.49%
Other income			14
Other losses, net			(186)
Exchange losses			(832)
Selling expenses			(6,644)
Administrative expenses			(33,292)
Operating loss			(709)
Finance income			270
Finance costs			(1,686)
Loss before income tax			(2,125)
Income tax credit			801
Loss for the year			(1,324)

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2018 is as follows:

	Tunnelling HK$'000	Foundation HK$'000	Total HK$'000
Segment revenue (all from external customers)	94,332	19,601	113,933
Cost of sales	(65,754)	(14,914)	(80,668)
Segment results	28,578	4,687	33,265
Gross profit %	30.30%	23.91%	29.20%
Other income			190
Exchange losses			(3,757)
Selling expenses			(4,698)
Administrative expenses			(29,363)
Operating loss			(4,363)
Finance income			257
Finance costs			(1,072)
Loss before income tax			(5,178)
Income tax credit			152
Loss for the year			(5,026)

(c) Revenue from external customers by customer location are as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Hong Kong	**12,248**	33,142
The PRC	**76,946**	62,583
Singapore and other Asia–Pacific countries	**23,182**	14,112
Others	**28,814**	4,096
	141,190	113,933

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(d) The total amounts of non-current assets, other than financial instruments, deposits and deferred income tax assets of the Group as at 31 December 2019 are located in the following regions:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Hong Kong	**14,727**	7,335
The PRC	**318**	388
Singapore	**7,774**	7,956
Australia	**14,403**	11,980
	37,222	27,659

(e) Certain customers contributed more than 10% of the total sales of the Group during the year ended 31 December 2019. The amount of sales to these customers are disclosed as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Customer A	**35,230**	17,437
Customer B	**22,413**	27,478
Customer C	**17,409**	17,161

7. EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Cost of inventories sold (note 17)	**99,305**	80,262
Machinery maintenance	**1,445**	128
Employee benefit expenses (note 9)	**18,668**	20,233
Depreciation		
Owned property, plant and equipment (note 15(b))	**1,112**	897
Right-of-use assets under the following categories* (note 15(c)):		
– Ownership interests in leasehold land for own use	**103**	–
– Other properties leased for own use	**1,428**	–
– Machinery and equipment	**705**	–
Property, plant and equipment under finance lease under HKAS 17*	**–**	705
Amortisation payments for leasehold land held for own use (note 15(a))	**–**	104
Short-term leases expenses	**1,343**	–
Freight charge	**4,309**	2,361
Legal and professional fee	**1,887**	1,259
Auditors' remuneration		
– Audit services	**695**	639
– Non-audit services	**92**	53
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	3,521
Provision for/(reversal of provision for) impairment loss on trade receivables (note 18)	**201**	(4,116)
Entertainment expenses	**976**	1,349
Travelling expense	**2,119**	2,226
Motor vehicle expenses	**786**	854
Others	**5,721**	4,254
Total cost of sales, selling expenses and administrative expenses	**140,895**	114,729

* The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. Further details of the transition to HKFRS 16 are set out in note 3(a)(v).

8. OTHER INCOME AND OTHER LOSSES, NET

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Other income		
Inspection charges	**–**	135
Others	**14**	55
	14	190
Other losses, net		
Gain on disposal of property, plant and equipment	**89**	–
Changes in fair value of other asset at fair value through profit or loss	**(275)**	–
	(186)	–

9. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' REMUNERATION)

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Salaries, wages and other benefits	**17,820**	19,236
Pension costs – defined contribution plans	**848**	997
	18,668	20,233

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' emoluments

The emoluments of individual directors of the Company during the year which were included in the staff costs as disclosed in note 9 are set out below:

For the year ended 31 December 2019

	Fees HK$'000	Salaries HK$'000	Other benefits (iv) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive directors:					
Ng Lai Ming (i)	–	975	–	18	993
Ng Lai Tong (ii)	–	949	468	18	1,435
Ng Lai Po (ii)	–	995	–	18	1,013
Cheung King (ii)	–	962	233	18	1,213
Independent non-executive directors:					
Tai Wai Kwok (iii)	150	–	–	–	150
Lo Kok Keung (iii)	150	–	–	–	150
Lau Chi Leung (iii)	150	–	–	–	150
	450	3,881	701	72	5,104

For the year ended 31 December 2018

	Fees HK$'000	Salaries HK$'000	Other benefits (iv) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive directors:					
Ng Lai Ming (i)	–	965	–	18	983
Ng Lai Tong (ii)	–	924	1,024	18	1,966
Ng Lai Po (ii)	–	975	–	18	993
Cheung King (ii)	–	937	108	18	1,063
Independent non-executive directors:					
Tai Wai Kwok (iii)	150	–	–	–	150
Lo Kok Keung (iii)	150	–	–	–	150
Lau Chi Leung (iii)	150	–	–	–	150
	450	3,801	1,132	72	5,455

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (CONTINUED)

(a) Directors' emoluments (Continued)

Notes:

(i) Mr. Ng Lai Ming was appointed as executive director and the chief executive officer ("CEO") of the Company on 24 September 2015.

(ii) Mr. Ng Lai Tong, Mr. Ng Lai Po, and Mr. Cheung King were appointed as executive directors of the Company on 6 January 2017.

(iii) Mr. Tai Wai Kwok, Ir Lo Kok Keung, and Mr. Lau Chi Leung were appointed as independent non-executive directors of the Company on 19 June 2017.

(iv) Other benefits represented sales commission earned.

During the year, no amount was paid or payable by the Group to the directors set out above as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group include 4 directors (2018: 4 directors) for the year ended 31 December 2019, whose remuneration are reflected in the analysis presented in note 10(a) above.

The remuneration paid or payable to the remaining 1 individual (2018: 1) are as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Salaries, wages and other benefits	**729**	1,065
Pension costs – defined contribution plan	**76**	78
	805	1,143

The remuneration fell within the following bands:

	Number of individual Year ended 31 December	
	2019	2018
Remuneration band		
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	1

During the year, no amount was paid or payable by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (CONTINUED)

(c) Senior Management's Remuneration

The remuneration paid or payable to senior management for the year ended 31 December 2019 and 2018 fell within the following bands:

	Number of individual Year ended 31 December	
	2019	2018
Remuneration bands		
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**–**	1
	3	4

11. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Finance income on:		
– Bank deposits	**270**	257
Finance costs on:		
– Bank borrowings	**1,153**	818
– Lease liabilities	**408**	–
– Finance lease liabilities	**–**	247
– Advance from a director	**125**	7
	1,686	1,072

12. INCOME TAX CREDIT

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Current taxation		
– Hong Kong profits tax	**161**	(38)
– Mainland China corporate income tax	**47**	458
– Singapore corporate income tax	**(29)**	(13)
– Australia corporate income tax	**(13)**	15
Deferred income tax (note 24)	**(967)**	(574)
Income tax credit	**(801)**	(152)

The Group is not subject to taxation in the Cayman Islands and British Virgin Islands.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2019 (2018: 16.5%).

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual period beginning on or after 1 January 2018.

Mainland China corporate income tax has been provided for at the rate of 25% on the estimated assessable profits for the Group's operations in Mainland China for the year ended 31 December 2019 (2018: 25%). Singapore corporate income tax has been provided for at the rate of 17% on the estimated assessable profit for the Group's operations in Singapore for the year ended 31 December 2019 (2018: 17%). Australia corporate income tax has been provided for at the rate of 27.5%–30% on the estimated assessable profits for the Group's operations in Australia for the year ended 31 December 2019 (2018: 30%).

12. INCOME TAX CREDIT (CONTINUED)

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Loss before income tax	**(2,125)**	(5,178)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(470)**	(483)
Income not subject to tax	**(121)**	(1,121)
Expenses not deductible for tax purposes	**174**	465
Tax losses for which no deferred income tax asset was recognised	**82**	669
Utilisation of previously unrecognised tax losses	**(9)**	(15)
Provision for withholding tax on undistributed earnings of a subsidiary	**–**	493
Over provision in prior year	**(457)**	(160)
Income tax credit	**(801)**	(152)

13. LOSS PER SHARE

(a) Basic

The basic loss per share is calculated on the loss attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the respective year.

	Year ended 31 December	
	2019	2018
Loss attributable to equity holders of the Company (HK$'000)	**(1,334)**	(4,951)
Weighted average number of ordinary shares in issue (thousands)	**600,000**	600,000
Basic loss per share (expressed in HK cents)	**(0.22)**	(0.83)

(b) Diluted

Diluted loss per share presented is the same as the basic loss per share as there were no potentially dilutive ordinary shares outstanding as at year end.

14. SUBSIDIARIES

The following is a list of subsidiaries as at 31 December 2019:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Issued and paid up share capital	Effective equity interest held as at 2019	2018
Directly held by the Company:					
M&L Pacific Group Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	US$1	**100%**	100%
M&L Far East Group Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	US$1	**100%**	100%
East Focus International Group Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	US$1	**100%**	100%
Indirectly held by the Company:					
M&L China Engineering & Materials Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$10,000	**96.45%**	96.45%
M&L Engineering & Materials Limited	Hong Kong, limited liability company	Trading and hiring of construction machinery and spare parts in Hong Kong	HK$15,000,000	**95.33%**	95.33%
M&L Engineering Machinery (Shenzhen) Limited	The PRC, limited liability company	Trading and hiring of construction machinery and spare parts in the PRC	RMB3,500,000	**96.45%**	96.45%
East Focus Engineering Services Limited	Hong Kong, limited liability company	Trading and hiring of construction machinery and spare parts in Hong Kong	HK$100,000	**100%**	100%
M&L Engineering & Materials PTE Limited	Singapore, limited liability company	Trading and hiring of construction machinery and spare parts in Singapore	SG$50,000	**100%**	100%
M&L South Pacific Group Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$100,000	**100%**	100%
M&L Australia Engineering Pty Limited	Australia, limited liability company	Trading of construction machinery and spare parts in Australia	AUD10,000	**100%**	100%
M&L Oceania Management Pty Limited	Australia, limited liability company	Property investment in Australia	AUD50,000	**100%**	100%

15. PREPAID LAND PREMIUM, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

(a) Prepaid land premium

Lump sum payments were made upfront to acquire the leased land located in Singapore and the lease was classified as operating lease as at 31 December 2018 under HKAS 17. Upon initial adoption of HKFRS 16 on 1 January 2019, the carrying amount of prepaid land premium relating to the leased land was reclassified to right-of-use assets (note 15(c)). The movement during the year are as follows:

	2019 **HK$'000**	2018 HK$'000
Original net book amount at 1 January	**5,356**	5,566
Initial adoption of HKFRS 16 (note 3(a)(i))	**(5,356)**	–
Restated net book amount at 1 January	**–**	5,566
Amortisation of prepaid land premium	**–**	(104)
Exchange difference	**–**	(106)
Net book amount at 31 December	**–**	5,356

All amortisation expenses have been recorded in administrative expenses.

15. PREPAID LAND PREMIUM, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

(b) Property, plant and equipment

	Freehold land and buildings HK$'000	Machinery and equipment HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2018						
Cost	2,730	11,680	1,414	1,180	3,869	20,873
Accumulated depreciation	(169)	(4,119)	(494)	(996)	(3,749)	(9,527)
Net book amount	2,561	7,561	920	184	120	11,346
Year ended 31 December 2018						
Opening net book amount	2,561	7,561	920	184	120	11,346
Additions	12,857	9	–	258	217	13,341
Depreciation	(213)	(962)	(205)	(122)	(100)	(1,602)
Exchange difference	(761)	(9)	–	(3)	(9)	(782)
Closing net book amount	14,444	6,599	715	317	228	22,303
At 31 December 2018						
Cost	14,814	11,667	1,413	1,135	4,059	33,088
Accumulated depreciation	(370)	(5,068)	(698)	(818)	(3,831)	(10,785)
Net book amount	14,444	6,599	715	317	228	22,303
Year ended 31 December 2019						
Original opening net book amount	**14,444**	**6,599**	**715**	**317**	**228**	**22,303**
Initial adoption of HKFRS 16 (note 15(c))	**–**	**(5,578)**	**–**	**–**	**–**	**(5,578)**
Restated opening net book amount	**14,444**	**1,021**	**715**	**317**	**228**	**16,725**
Additions	**–**	**1,758**	**1,002**	**66**	**242**	**3,068**
Disposal (note 27(b))	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation	**(299)**	**(297)**	**(257)**	**(143)**	**(116)**	**(1,112)**
Exchange difference	**(116)**	**(2)**	**(1)**	**–**	**(5)**	**(124)**
Closing net book amount	**14,029**	**2,480**	**1,459**	**240**	**349**	**18,557**
At 31 December 2019						
Cost	**14,696**	**6,379**	**2,414**	**1,201**	**4,164**	**28,854**
Accumulated depreciation	**(667)**	**(3,899)**	**(955)**	**(961)**	**(3,815)**	**(10,297)**
Net book amount	**14,029**	**2,480**	**1,459**	**240**	**349**	**18,557**

15. PREPAID LAND PREMIUM, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

(b) Property, plant and equipment (Continued)

All depreciation expenses for the years ended 31 December 2019 and 2018 have been recorded in administrative expenses.

(c) Right-of-use assets

HKFRS 16 was adopted by the Group on 1 January 2019 without restating comparative information. Details of the transitional provision that were applied as at 1 January 2019 are set out in note 3(a)(v). The Group recognises lease contracts as at 31 December 2019 and 2018 based on accounting policies stated in note 4.20A and 4.20B respectively. The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Ownership interests in leasehold land for own use HK$'000	Other properties leased for own use HK$'000	Machinery and equipment HK$'000	Total HK$'000
Year ended 31 December 2019				
Original net book amount	–	–	–	–
Initial adoption of HKFRS 16	5,356	5,186	5,578	16,120
Restated net book amount	5,356	5,186	5,578	16,120
Depreciation	(103)	(1,428)	(705)	(2,236)
Exchange difference	42	(5)	–	37
Closing net book amount	5,295	3,753	4,873	13,921
At 31 December 2019				
Cost	5,402	5,180	5,578	16,160
Accumulated depreciation	(107)	(1,427)	(705)	(2,239)
Net book amount	5,295	3,753	4,873	13,921

15. PREPAID LAND PREMIUM, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

(c) Right-of-use assets (Continued)

Notes:

(a) The Group as a lessee, has certain lease contracts for its operation.

The Group holds an industrial buildings for its operation. Lump sum payments were made upfront to acquire the leased land from previous owner with initial lease periods of 60 years, and no ongoing payment will be made under the terms of the land lease, other than payment based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

The Group leases a number of properties in the jurisdictions from which it operates. The periodic rental of properties leased are fixed over the lease term. The leases of properties generally have lease terms between 3 and 5 years.

The Group lease certain machineries for its operation. Lease of machineries has lease terms of 4 years and only comprise variable payments over lease terms.

(b) All depreciation expenses for the year ended 31 December 2019 have been recorded in administrative expenses.

(c) As at 31 December 2019, other properties leased for own use as well as machinery and equipment were used to secure the Group's lease liabilities. The details are set out in note 23(b).

16. OTHER ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Other asset at fair value through profit or loss		
— Life insurance for Mr. Ng Lai Ming	**4,744**	–

During the year ended 31 December 2019, a non-wholly owned subsidiary of the Company, in the capacity of policy holder and beneficiary, entered into a life insurance policy with an insurance company, an independent third party not related to the Group, on Mr. Ng Lai Ming, the chief executive officer of the Company. The policy required an upfront payment of the total policy premium and the policy holder may request partial surrender or full surrender of the policy at any time and receive cash back based on the value at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged. If such withdrawal is made at any time during the first to the fifteen year, as appropriate, a pre-determined specified surrender charge would be imposed.

16. OTHER ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The Group presently has no intention to terminate the policy nor withdraw cash prior to the fifteenth year of the insurance policy and the expected life of the policy remained unchanged from the initial recognition.

The life insurance policy is denominated in United States dollar ("US$"), being a currency other than the functional currency of the Group and it has been assigned as security for the banking facilities.

Particulars of the policy are as follows:

		Guaranteed interest rates	
		First to	**Sixth year**
Insured sum	**Upfront payment**	**fifth years**	**and onwards**
US$1,582,862 (equivalent to approximately HK$12,425,000)	US$639,386 (equivalent to approximately HK$5,019,000)	3.90% per annum	2.25% per annum

The fair value of the payment for a life insurance policy is determined by reference to the account value of a life insurance policy at the end of the reporting period, which has included the guaranteed interest rate as mentioned above. It is measured at fair value using significant unobservable inputs (Level 3 under HKFRS 13 "Fair Value Measurement"). Significant inputs include the expected return and the internal rate of return of the underlying investments. During the year ended 31 December 2019, there were no transfers between Levels 1, 2 and 3 fair value measurement. The change in fair value of the policy had been recognised in profit or loss for the year ended 31 December 2019.

17. INVENTORIES

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Merchandise	**34,496**	28,763

The cost of inventories recognised as expense and included in "cost of sales" amounted to HK$99,305,000 for the year ended 31 December 2019 (2018: HK$80,262,000).

18. TRADE AND OTHER RECEIVABLES

	As at 31 December 2019 HK$'000	2018 HK$'000
Trade receivables	**105,753**	93,077
Less: loss allowance	**(5,880)**	(6,842)
Trade receivables – net	**99,873**	86,235
Bills receivables	**10,871**	2,961
Prepayments	**306**	502
Trade deposits paid	**180**	6,186
Deposits paid	**735**	1,404
Other receivables	**1,516**	986
	113,481	98,274
Less: Non-current portion deposits	**(448)**	(961)
	113,033	97,313

The credit terms granted by the Group generally ranged up to 270 days (2018: 270 days). The ageing analysis of these trade receivables based on invoice date is as follows:

	As at 31 December 2019 HK$'000	2018 HK$'000
0 to 30 days	**16,311**	17,405
31 to 60 days	**6,439**	6,603
61 to 90 days	**2,950**	5,975
91 to 180 days	**18,611**	15,803
181 to 365 days	**8,961**	10,285
1 to 2 years	**26,668**	16,302
2 to 3 years	**10,747**	8,846
Over 3 years	**15,066**	11,858
Trade receivables, gross	**105,753**	93,077
Less: loss allowance	**(5,880)**	(6,842)
Trade receivables, net	**99,873**	86,235

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements on the Group's loss allowance for trade receivables are as follows:

	2019	2018
	HK$'000	HK$'000
Balance at 1 January	**6,842**	11,360
Impairment losses charged to profit or loss	**201**	–
Impairment losses reversed	**–**	(4,116)
Written off during the year as uncollectible	**(1,040)**	(35)
Exchange difference	**(123)**	(367)
Balance at 31 December	**5,880**	6,842

The Group recognised impairment loss on trade receivables for the years ended 31 December 2019 and 2018 respectively based on the accounting policies stated in note 4.7(ii). Further details of the Group's credit policy and credit risk arising from trade receivables and the loss allowances arising from ECL are set out in note 35(a)(ii). None of the trade receivables that have been written is still subject to enforcement activities.

The carrying amounts of bills receivables approximate their fair values due to their short maturity. As at 31 December 2019, all the bills receivables represent bank acceptance notes issued by third parties with average maturity of within 213 days (2018: within 189 days), which are denominated in Renminbi.

19. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Short-term bank deposits with original maturities within three months	**15,000**	14,000
Cash at banks and on hand	**10,109**	19,916
	25,109	33,916
Maximum exposure to credit risk	**25,098**	33,904

19. CASH AND CASH EQUIVALENTS (CONTINUED)

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Renminbi	**2,952**	2,168
Euro	**2,573**	3,742
HK dollar	**16,818**	23,730
Singapore dollar	**317**	613
United States dollar	**1,093**	3,316
Australian dollar	**1,215**	209
Other currencies	**141**	138
	25,109	33,916

As at 31 December 2019, cash and cash equivalents of approximately HK$2,892,000 (2018: HK$2,089,000) are denominated in Renminbi and deposited with banks in Mainland China. Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of Mainland China is subject to the rules and regulations of exchange control promulgated by the government of the PRC.

20. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

(a) Trade and other payables

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Trade payables	**46,825**	33,973
Accrued expenses and other payables	**6,754**	3,570
	53,579	37,543

The carrying amounts of trade and other payables approximate their fair values as at 31 December 2019 and 2018.

20. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES (CONTINUED)

(a) Trade and other payables (Continued)

The ageing analysis of trade payables based on invoice date is as follows:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
0 to 30 days	**3,444**	4,462
31 to 60 days	**1,261**	7,081
61 to 90 days	**6,505**	3,977
91 to 120 days	**10,486**	5,567
Over 120 days	**25,129**	12,886
	46,825	33,973

(b) Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Contract liabilities related to trading in spare parts	**–**	899

Movements in contract liabilities

	2019	2018
	HK$'000	HK$'000
Balance at 1 January	**899**	64
– Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(899)**	(64)
– Increase in contract liabilities as a result of receiving sales deposits during the year in respect of trading in spare parts as at 31 December	**–**	899
Balance at 31 December	**–**	899

As at 31 December 2018, the contract liabilities of HK$899,000 were recognised as income in 2019.

21. DIVIDEND PAYABLE

The amount is payable to a non-controlling shareholder of a company now comprising the Group, Genghiskhan Land Holdings Limited ("Genghiskhan"). Genghiskhan was struck off from the Register of Companies of the BVI on 30 April 1998 and subsequently dissolved on 30 April 2008.

The amount is unsecured, interest-free, repayable on demand and denominated in HK$. Its carrying amount at 31 December 2019 and 2018 approximates its fair value.

22. AMOUNTS DUE TO DIRECTORS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Amounts due to:		
– Mr. Ng Lai Tong	**468**	1,024
– Mr. Cheung King	**233**	108
Advance from:		
– Mr. Ng Lai Ming	**5,000**	5,000
	5,701	6,132

The amounts due to Mr. Ng Lai Tong and Mr. Cheung King are unsecured, interest-free and repayable on demand. Their carrying amounts at 31 December 2019 and 2018 approximate their fair values and are denominated in HK$.

The advance from Mr. Ng Lai Ming bears interest at 2.5% per annum and it is paid on simple basis and semi-annually. It is unsecured and repayable upon 3 months notice. The carrying amount at 31 December 2019 and 2018 approximates its fair value and is denominated in HK$.

23. BORROWINGS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Non-current		
Lease liabilities (note b)	**4,038**	–
Finance lease liabilities (note c)	**–**	3,042
	4,038	3,042
Current		
Bank borrowings (note a)	**24,000**	17,000
Lease liabilities (note b)	**2,932**	–
Finance lease liabilities (note c)	**–**	1,551
	26,932	18,551
Total	**30,970**	21,593

23. BORROWINGS (CONTINUED)

(a) Bank borrowings

The carrying amounts of the bank borrowings approximate their fair values as at year end, and are denominated in the HK$.

(b) Lease liabilities

The movement of lease liabilities are as follows:

	Other properties leased for own use HK$'000	Machinery and equipment HK$'000	Total HK$'000
At 31 December 2018 as originally presented	–	–	–
Initial adoption of HKFRS 16	5,186	4,593	9,779
Restated balance at 1 January 2019 (note 3(a)(i))	5,186	4,593	9,779
Finance cost	224	184	408
Lease payments	(1,477)	(1,735)	(3,212)
Exchange difference	(5)	–	(5)
Balance at 31 December 2019	3,928	3,042	6,970

The lease liabilities were repayable as follows:

	Minimum lease payments	
	As at 31 December 2019 HK$'000	As at 1 January 2019 HK$'000
Not later than 1 year	**3,203**	3,216
Later than 1 year but not later than 5 years	**4,179**	7,383
	7,382	10,599
Future finance charges on leases	**(412)**	(820)
Present value of lease liabilities	**6,970**	9,779
The present value of lease liabilities is as follows:		
Not later than 1 year	**2,932**	2,807
Later than 1 year but not later than 5 years	**4,038**	6,972
	6,970	9,779

23. BORROWINGS (CONTINUED)

(b) Lease liabilities (Continued)

HKFRS 16 was adopted by the Group on 1 January 2019 without restating comparative information. Details of the transitional provision that were applied as at 1 January 2019 are set out in note 3(a)(v). The Group recognises lease contracts as at 31 December 2019 and 2018 based on accounting policies stated in note 4.20A and 4.20B respectively.

The Group's obligation under its leases are effectively secured as the rights to the leased assets revert to the lessors in the event of default.

(c) Finance lease liabilities

The Group leased certain machinery and equipment which were classified as finance lease under HKAS 17. Upon initial adoption of HKFRS 16 on 1 January 2019, the carrying amount of finance lease liabilities to these leases were reclassified to lease liabilities (note 23(b)).

The finance lease liabilities as at 31 December 2018 were repayable as follows:

	Minimum lease payments As at 31 December 2018 HK$'000
Not later than 1 year	1,736
Later than 1 year but not later than 5 years	3,182
	4,918
Future finance charges on finance lease	(325)
Present value of finance lease liabilities	4,593
The present value of finance lease liabilities is as follows:	
Not later than 1 year	1,551
Later than 1 year but not later than 5 years	3,042
	4,593

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessors in the event of default.

As at 31 December 2018, finance lease liabilities are secured by certain machinery and equipment with carrying amount of HK$5,578,000 and inventories amounted to HK$1,996,000.

23. BORROWINGS (CONTINUED)

(d) Banking facilities

The Group has obtained total banking facilities from banks of approximately HK$30,000,000 (2018: HK$30,000,000), of which HK$6,000,000 (2018: HK$13,000,000) has not been utilised.

The banking facilities are secured by the following:

(i) the assignment of the life insurance policy of Mr. Ng Lai Ming with an insured sum of US$1,582,862 for the bank borrowings as at 31 December 2019; and

(ii) corporate guarantees provided by the Company, M&L Engineering & Materials Limited and East Focus Engineering Services Limited.

(e) The effective interest rates of the borrowings at the year end are as follows:

	As at 31 December	
	2019	2018
Floating rate		
Bank borrowings	**5.0%**	5.0%
Lease liabilities	**4.9%**	–
Finance lease liabilities	**–**	4.8%

24. DEFERRED INCOME TAX (ASSETS)/LIABILITIES

The analysis of deferred income tax assets and liabilities is as follows:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Deferred income tax assets:		
– To be recovered after more than 12 months	**(1,955)**	(1,118)
Deferred income tax liabilities:		
– To be settled after more than 12 months	**1,424**	1,572
Deferred income tax (assets)/liabilities, net	**(531)**	454

24. DEFERRED INCOME TAX (ASSETS)/LIABILITIES (CONTINUED)

The net movement on the deferred income tax account is as follows:

	HK$'000
At 1 January 2018	1,059
Credited to profit or loss	(574)
Exchange difference	(31)
At 31 December 2018	**454**
Credited to profit or loss	**(967)**
Exchange difference	**(18)**
At 31 December 2019	**(531)**

The movement in deferred income tax assets and liabilities during the years ended 31 December 2018 and 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses HK$'000	**Unrealised profit** HK$'000	**Total** HK$'000
Deferred income tax assets			
At 1 January 2018	37	65	102
Credited to profit or loss	894	122	1,016
At 31 December 2018	**931**	**187**	**1,118**
Credited/(charged) to profit or loss	**859**	**(25)**	**834**
Exchange difference	**3**	**–**	**3**
At 31 December 2019	**1,793**	**162**	**1,955**

24. DEFERRED INCOME TAX (ASSETS)/LIABILITIES (CONTINUED)

	Accelerated depreciation allowances HK$'000	Withholding tax HK$'000	Total HK$'000
Deferred income tax liabilities			
At 1 January 2018	909	252	1,161
(Credited)/charged to profit or loss	(51)	493	442
Exchange difference	–	(31)	(31)
At 31 December 2018	**858**	**714**	**1,572**
Credited to profit or loss	**(133)**	**–**	**(133)**
Exchange difference	**–**	**(15)**	**(15)**
At 31 December 2019	**725**	**699**	**1,424**

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on the unremitted earnings or dividends declared in respect of profits earned by subsidiaries established in the PRC from 1 January 2008 onwards.

25. SHARE CAPITAL

	Number of ordinary shares	Share capital HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2018, 31 December 2018 and 31 December 2019	1,000,000,000	10,000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 31 December 2019	600,000,000	6,000

26. RESERVES AND SHARE PREMIUM

	Capital reserve HK$'000	Share premium HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000 (note)	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2018	15,642	63,332	289	696	37,079	117,038
Comprehensive income:						
Loss for the year	–	–	–	–	(4,951)	(4,951)
Currency translation difference	–	–	(652)	–	–	(652)
Transactions with owners:						
Transfer to statutory reserve	–	–	–	528	(528)	–
Dividends declared to the equity holders of the Company (note 28)	–	–	–	–	(4,800)	(4,800)
Balance at 31 December 2018	15,642	63,332	(363)	1,224	26,800	106,635
Balance at 1 January 2019	**15,642**	**63,332**	**(363)**	**1,224**	**26,800**	**106,635**
Comprehensive income:						
Loss for the year	**–**	**–**	**–**	**–**	**(1,334)**	**(1,334)**
Currency translation difference	**–**	**–**	**(119)**	**–**	**–**	**(119)**
Balance at 31 December 2019	**15,642**	**63,332**	**(482)**	**1,224**	**25,466**	**105,182**

Note: The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. The PRC company is required to appropriate 10% of statutory net profits to statutory reserves, upon distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory reserve is more than 50% of its registered capital. The statutory reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the statutory reserve using its post-tax profits in accordance with resolutions of the board of directors.

27. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Net cash used in operations:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Loss before income tax	**(2,125)**	(5,178)
Adjustments for:		
Finance costs	**1,686**	1,072
Finance income	**(270)**	(257)
Depreciation	**3,348**	1,602
Amortisation	**–**	104
Provision/(reversal of provision) for impairment loss on trade receivables	**201**	(4,116)
Gain on disposal of property, plant and equipment	**(89)**	–
Changes in fair value of other asset at fair value through profit or loss	**275**	–
Cash generated from/(used in) operation before change in working capital	**3,026**	(6,773)
Changes in working capital		
Inventories	**(5,794)**	(4,340)
Trade and other receivables	**(17,511)**	(22,764)
Trade and other payables	**18,117**	4,394
Contract liabilities	**(835)**	835
Balances with directors	**(431)**	(531)
Other provision	**(25)**	153
Net cash used in operations	**(3,453)**	(29,026)

(b) In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment are analysed as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Net book amount (note 15(b))	**–**	–
Gain on disposal of property, plant and equipment	**89**	–
Proceeds from disposal of property, plant and equipment	**89**	–

27. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

	Liabilities from financing activities				
	Bank borrowings due within one year HK$'000	Lease liabilities due within one year HK$'000	Lease liabilities due after one year HK$'000	Amount due to a director HK$'000	Total HK$'000
As 31 December 2018 as originally presented	(17,000)	(1,551)	(3,042)	(5,000)	(26,593)
Initial adoption of HKFRS 16	–	(1,256)	(3,930)	–	(5,186)
Restated balance at 1 January 2019	(17,000)	(2,807)	(6,972)	(5,000)	(31,779)
Exchange adjustments	–	5	–	–	5
Other change	(1,153)	(408)	–	(125)	(1,686)
Net cash flows	(5,847)	278	2,934	125	(2,510)
Net balance as at 31 December 2019	(24,000)	(2,932)	(4,038)	(5,000)	(35,970)

	Others assets	Liabilities from financing activities				
	Pledged deposit HK$'000	Bank borrowings due within one year HK$'000	Finance lease liabilities due within one year HK$'000	Finance lease liabilities due after one year HK$'000	Amount due to a director HK$'000	Total HK$'000
Net balance as at 1 January 2018	2,536	(14,000)	(1,666)	(4,592)	–	(17,722)
Net cash flows	(2,536)	(3,000)	115	1,550	(5,000)	(8,871)
Net balance as at 31 December 2018	–	(17,000)	(1,551)	(3,042)	(5,000)	(26,593)

28. DIVIDENDS

The final dividend for the year ended 31 December 2017 of HK0.8 cents per share, amounting to total dividend of HK$4,800,000, has been approved by shareholders at the Company's annual general meeting and the payment for which has been despatched on 11 June 2018.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

29. CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, the Group and the Company had no contingent liabilities.

30. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Machinery and equipment	**–**	1,196
	–	1,196

(b) Operating lease commitments – as lessee

As at 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	HK$'000
No later than one year	1,949
Later than one year and no later than five years	5,309
	7,258

31. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

Other than those disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties in the normal course of the Group's business:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Interest expense paid to a director (note 22)	**125**	7

(b) Key management compensation

Key management includes directors and senior managements. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Salaries, wages and other benefits	**7,006**	8,409
Contributions to defined contribution retirement plans	**166**	186
	7,172	8,595

32. ULTIMATE HOLDING COMPANY

Management consider that JAT United Company Limited as the ultimate holding company of the Group, which is a company incorporated in the British Virgin Islands and owned by Mr. Ng Lai Ming, who is also the executive director and chairman of the Board of the Company.

33. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Notes	As at 31 December **2019** **HK$'000**	 2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries		**47,075**	69,314
Deferred tax asset		**257**	219
		47,332	69,533
Current assets			
Prepayments and other receivables		**112**	79
Amounts due from subsidiaries		**50,994**	49,455
Cash and cash equivalents		**15,084**	17,625
		66,190	67,159
Current liability			
Accrued expenses		**1,398**	684
Net current assets		**64,792**	66,475
Net assets		**112,124**	136,008
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Share capital		**6,000**	6,000
Reserves	(a)	**106,124**	130,008
Total equity		**112,124**	136,008

The statement of financial position of the Company was approved by the Board of Directors on 31 March 2020 and were signed on its behalf by:

Ng Lai Ming
Executive Director

Ng Lai Po
Executive Director

33. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Statement of financial position of the Company (Continued)

Note (a) Reserve movement of the Company

	Share premium and other reserve HK$'000	(Accumulated losses)/retained earnings HK$'000	Total HK$'000
Balance at 1 January 2018	129,114	5,898	135,012
Total comprehensive income			
Loss for the year	–	(204)	(204)
Transactions with owner			
Dividends approved in the current year (note 28)	–	(4,800)	(4,800)
Balance at 31 December 2018 and 1 January 2019	**129,114**	**894**	**130,008**
Total comprehensive income			
Loss for the year	**–**	**(23,884)**	**(23,884)**
Balance at 31 December 2019	**129,114**	**(22,990)**	**106,124**

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amounts of financial assets and liabilities:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Financial assets:		
Financial assets at amortised cost:		
– Trade and other receivables	**111,734**	90,605
– Cash and cash equivalents	**25,109**	33,916
	136,843	124,521
Financial liabilities:		
Financial liabilities at amortised cost:		
– Trade and other payables	**52,990**	37,509
– Amounts due to directors	**5,701**	6,132
– Bank borrowings	**24,000**	17,000
– Lease liabilities	**6,970**	–
– Finance lease liabilities	**–**	4,593
– Dividend payable	**7,980**	7,980
	97,641	73,214

35. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, cash flow and fair value interest rate risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group's major customers are from Hong Kong, the PRC and Singapore, and its major suppliers are from Italy, Korea, Singapore and the PRC. The Group is exposed to foreign currency exchange fluctuations mainly from exposures arising in the normal course of its business, primarily with respect to United States dollars ("US$"), Euro ("EUR") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has a policy to require group companies to manage their foreign exchange risks against their respective functional currencies. It mainly includes managing the exposures arisen from sales and purchases made by relevant group companies in currencies other than their own functional currencies. The Group also manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure. The Group has not used any hedging arrangement to hedge its foreign risk exposure.

At 31 December 2019, if HK$ had strengthened/weakened by 5% against the EUR with all other variables held constant, pre-tax loss for the year would have been approximately HK$1,334,000 lower/higher (2018: pre-tax loss would have been approximately HK$509,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of EUR denominated trade receivables and payables and cash and cash equivalents.

At 31 December 2019, if HK$ had strengthened/weakened by 5% against the RMB with all other variables held constant, pre-tax loss for the year would have been approximately HK$4,495,000 higher/lower (2018: pre-tax loss would have been approximately HK$3,052,000 higher/lower), mainly as a result of foreign exchange losses/gains on translation of RMB denominated trade receivables and payables and cash and cash equivalents.

Since the HK$ is pegged with US$, there are no significant foreign currency exposures for US$ denominated financial assets and liabilities.

The remaining assets and liabilities of each company within the Group are mainly denominated in their respective functional currencies. The directors are of the opinion that the volatility of the Group's profits against changes in exchange rates of foreign currencies arising from these assets and liabilities would not be significant. Accordingly, no sensitivity analysis is performed.

35. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(ii) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, cash and cash equivalents and pledged deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk includes risks resulting from counter party default and risks of concentration. In respect of trade receivables, individual credit evaluations are performed on significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group generally requires customers to settle billings in accordance with contracted terms and other debts in accordance with agreements.

Management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment provision is made for the irrecoverable amounts.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix by reference to past four years data on default experience of the debtor and current market condition in relation to each debtor's exposure and time value of money where appropriate. The expected credit losses also incorporate forward looking information with reference to general macroeconomic conditions that may affect the ability of the debtors to settle the trade receivables. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowances based on past due status is not further distinguished between the Group's different customer bases. Normally, the group does not obtain collateral from customers.

The following table provides information about the Group's exposure to credit risk and ECL for trade receivables:

As at 31 December 2019:

	Expected loss rate	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.04%	31,760	14
1–30 days past due	0.12%	1,632	2
31–60 days past due	0.21%	3,875	8
61–180 days past due	0.36%	11,268	41
181–365 days past due	0.59%	18,669	110
1–2 years past due	0.94%	18,888	177
2–3 years past due	1.76%	5,845	103
Over 3 years past due	39.27%	13,816	5,425
		105,753	5,880

35. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(ii) Credit risk (Continued)

As at 31 December 2018:

	Expected loss rate	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.21%	24,081	51
1–30 days past due	0.48%	11,495	55
31–60 days past due	0.67%	4,785	32
61–180 days past due	0.77%	12,103	93
181–365 days past due	2.06%	11,814	243
1–2 years past due	2.95%	9,281	274
2–3 years past due	6.10%	9,653	589
Over 3 years past due	55.80%	9,865	5,505
		93,077	6,842

The credit risks on cash and cash equivalents are limited because the counterparties are reputable and creditworthy banks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

(iii) Cash flow and fair value interest rate risk

Other than the bank borrowings and lease liabilities (2018: finance lease liabilities) which carry interest at prevailing market interest rates, the Group has no other significant interest-bearing assets or liabilities. Therefore, the interest rate risk mainly arises from interest-bearing bank borrowings and finance lease liabilities.

At 31 December 2019, if interest rate on bank borrowings had been 100 basis point higher/lower with all other variables held constant, post-tax loss for the year would have been approximately HK$200,400 higher/lower (2018: post-tax loss would have been approximately HK$142,000 higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2019, if interest rate on lease liabilities (2018: finance lease liabilities) had been 100 basis point higher/lower with all other variables held constant, post-tax loss for the year would have been approximately HK$25,405 higher/lower (2018: post-tax loss would have been approximately HK$38,400 higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

35. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances. The Group's liquidity risk is further mitigated through the availability of financing through its own cash resources and the availability of banking facilities to meet its financial commitments. In the opinion of the directors, the Group does not have any significant liquidity risk.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on undiscounted cash flows and the earliest date the Group can be required to pay. Specifically, for the bank borrowings which contains a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the borrowings with immediate effect. Balances due within 12 months equal their carrying balances (including both interest and principal) as the impact of discounting is not significant.

	On demand HK$'000	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
As at 31 December 2019					
– Bank borrowings	**24,158**	**–**	**–**	**–**	**24,158**
– Lease liabilities	**–**	**3,203**	**3,008**	**1,171**	**7,382**
– Amounts due to directors	**5,701**	**–**	**–**	**–**	**5,701**
– Trade and other payables	**–**	**52,990**	**–**	**–**	**52,990**
– Dividend payable	**–**	**7,980**	**–**	**–**	**7,980**
	29,859	**64,173**	**3,008**	**1,171**	**98,211**
As at 31 December 2018					
– Bank borrowings	17,148	–	–	–	17,148
– Finance lease liabilities	–	1,736	1,736	1,446	4,918
– Amounts due to directors	6,132	–	–	–	6,132
– Trade and other payables	–	37,507	–	–	37,507
– Dividend payable	–	7,980	–	–	7,980
	23,280	47,223	1,736	1,446	73,685

35. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (CONTINUED)

(b) Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-asset ratio. The ratio is calculated as total debts divided by total assets. Total debts include interest-bearing borrowings, lease liabilities (2018: finance lease liabilities) and advance from Mr. Ng Lai Ming.

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Total debts	**35,970**	26,593
Total assets	**212,743**	190,196
Debt-to-asset ratio	**16.91%**	13.98%

(c) Fair value estimation

The carrying amounts of the Group's current financial assets, including trade and other receivables, pledged bank deposits and cash and cash equivalents, and current financial liabilities, including trade and other payables, dividend payable, amounts due to directors, bank borrowings and lease liabilities, approximate their fair values as at the reporting date due to their short maturities. The nominal value less estimated credit adjustments for financial assets and liabilities with maturities of less than one year are assumed to approximate their fair values. The carrying value of non-current lease liabilities is assumed to approximate its fair value as the amount bears interest at commercial rate.

Financial Summary

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from this annual report and prior year financial statements, is set out below.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**141,190**	113,933	161,626	247,348	310,098
Gross profit	**40,231**	33,265	45,092	73,270	74,352
(Loss)/profit before income tax	**(2,125)**	(5,178)	(6,691)	27,028	34,825
Income tax credit/(expense)	**801**	152	(1,805)	(4,972)	(7,494)
(Loss)/profit for the year	**(1,324)**	(5,026)	(8,496)	22,056	27,331
(Loss)/profit for the year attributable to equity holders of the Company	**(1,334)**	(4,951)	(8,645)	21,150	26,436

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**39,625**	29,738	18,730	15,997	15,732
Current assets	**173,118**	160,458	175,620	160,663	209,831
Total assets	**212,743**	190,196	194,350	176,660	225,563
Non-current liabilities	**5,757**	4,934	5,920	1,397	5,947
Current liabilities	**94,354**	71,179	63,852	83,778	147,460
Total liabilities	**100,111**	76,113	69,772	85,175	153,407
Non-controlling interests	**1,450**	1,448	1,540	2,857	2,277