



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



2017

INTERIM REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, 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.

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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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, 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.

INTERIM RESULTS

The board of Directors (the "Board") of M&L Holdings Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016. These information should be read in conjunction with the prospectus of the Company dated 30 June 2017 (the "Prospectus").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2017

| | Notes | Unaudited | | Unaudited | |
|--|-------|--------------------|----------|------------------|-----------|
| | | Three months ended | | Six months ended | |
| | | 30 June | | 30 June | |
| | | 2017 | 2016 | 2017 | 2016 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue | 5 | 44,692 | 73,314 | 97,818 | 137,316 |
| Cost of sales | 6 | (33,042) | (52,243) | (72,509) | (100,453) |
| Gross profit | | 11,650 | 21,071 | 25,309 | 36,863 |
| Other income | | 84 | 67 | 506 | 326 |
| Other losses, net | | - | - | (233) | - |
| Selling expenses | 6 | (30) | (2,590) | (2,036) | (4,018) |
| Administrative expenses | 6 | | | | |
| - Legal and professional fee for listing preparation | | (2,037) | (898) | (6,301) | (1,570) |
| - Others | | (5,773) | (10,871) | (12,315) | (18,979) |
| Operating profit | | 3,894 | 6,779 | 4,930 | 12,622 |
| Finance income | | 3 | 2 | 6 | 3 |
| Finance costs | | (198) | (221) | (395) | (477) |
| Profit before income tax | | 3,699 | 6,560 | 4,541 | 12,148 |
| Income tax expense | 7 | (1,449) | (1,584) | (2,104) | (2,798) |
| Profit for the period | | 2,250 | 4,976 | 2,437 | 9,350 |
| Other comprehensive income | | | | | |
| Item that may be reclassified to profit or loss: | | | | | |
| Currency translation differences | | 236 | 30 | 698 | 467 |
| Total comprehensive income | | 2,486 | 5,006 | 3,135 | 9,817 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months and six months ended 30 June 2017

| | Notes | Unaudited | | Unaudited | |
|--|----------|--------------------|----------|------------------|-------|
| | | Three months ended | | Six months ended | |
| | | 30 June | | 30 June | |
| | 2017 | 2016 | 2017 | 2016 | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Profit for the period attributable to: | | | | | |
| Equity holders of the Company | | 2,074 | 4,781 | 2,087 | 8,951 |
| Non-controlling interests | | 176 | 195 | 350 | 399 |
| | | 2,250 | 4,976 | 2,437 | 9,350 |
| Total comprehensive income attributable to: | | | | | |
| Equity holders of the Company | | 2,309 | 4,810 | 2,785 | 9,416 |
| Non-controlling interests | | 177 | 196 | 350 | 401 |
| | | 2,486 | 5,006 | 3,135 | 9,817 |
| Earnings per share | | | | | |
| – Basic and diluted (HK cents) | 8 | 0.46 | 1.06 | 0.46 | 2.00 |

The notes on pages 7 to 31 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEETS

As at 30 June 2017

| | | Unaudited | Audited |
|---|-------|-----------------------------|---------------------------------|
| | Notes | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Assets | | | |
| Non-current assets | | | |
| Prepaid land premium | | 5,443 | 5,195 |
| Property, plant and equipment | | 10,125 | 10,474 |
| Deposits | 11 | 300 | 288 |
| Deferred income tax assets | | 40 | 40 |
| | | 15,908 | 15,997 |
| Current assets | | | |
| Inventories | | 25,872 | 29,586 |
| Trade and other receivables | 11 | 64,991 | 75,444 |
| Tax recoverable | | 479 | 2,054 |
| Pledged bank deposits | | 2,534 | 2,532 |
| Cash and cash equivalents | | 53,343 | 44,357 |
| | | 147,219 | 153,973 |
| Assets held for sale | 10 | – | 6,690 |
| | | 147,219 | 160,663 |
| Total assets | | 163,127 | 176,660 |
| Equity | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 12 | – | – |
| Reserves | | 73,413 | 88,628 |
| | | 73,413 | 88,628 |
| Non-controlling interests | | 1,737 | 2,857 |
| Total equity | | 75,150 | 91,485 |

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

As at 30 June 2017

| | | Unaudited | Audited |
|-------------------------------------|-------|-----------------------------|---------------------------------|
| | Notes | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Finance lease liabilities | 17(B) | – | 59 |
| Deferred income tax liabilities | | 987 | 859 |
| Other provision | | 479 | 479 |
| | | 1,466 | 1,397 |
| Current liabilities | | | |
| Trade and other payables | 14 | 57,555 | 50,622 |
| Dividend payable | 15 | 7,980 | 6,510 |
| Amounts due to directors | 16 | – | 5,685 |
| Bank borrowings | 17(A) | 20,000 | 20,000 |
| Finance lease liabilities | 17(B) | 116 | 113 |
| Current income tax liabilities | | 860 | 848 |
| | | 86,511 | 83,778 |
| Total liabilities | | 87,977 | 85,175 |
| Total equity and liabilities | | 163,127 | 176,660 |

The notes on pages 7 to 31 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2017

| Attributable to equity holders of the Company | | | | | | |
|---|---------------------------|-----------------------------------|--|-------------------|---------------------------------------|--------------------------|
| | Share capital HK\$'000 | Reserves HK\$'000 (Note 13) | Share premium HK\$'000 (Note 13) | Total HK\$'000 | Non-controlling interests HK\$'000 | Total equity HK\$'000 |
| At 1 January 2017 (audited) | – | 79,128 | 9,500 | 88,628 | 2,857 | 91,485 |
| Profit for the period | – | 2,087 | – | 2,087 | 350 | 2,437 |
| Other comprehensive income: | | | | | | |
| Currency translation differences | – | 698 | – | 698 | – | 698 |
| Total comprehensive income for the period | – | 2,785 | – | 2,785 | 350 | 3,135 |
| Transactions with owners: | | | | | | |
| Dividends declared to the equity holders of the Company | – | (18,000) | – | (18,000) | – | (18,000) |
| Dividends declared to non-controlling interests | – | – | – | – | (1,470) | (1,470) |
| At 30 June 2017 (unaudited) | – | 63,913 | 9,500 | 73,413 | 1,737 | 75,150 |
| At 1 January 2016 (audited) | – | 69,879 | – | 69,879 | 2,277 | 72,156 |
| Profit for the period | – | 8,951 | – | 8,951 | 399 | 9,350 |
| Other comprehensive income: | | | | | | |
| Currency translation differences | – | 465 | – | 465 | 2 | 467 |
| Total comprehensive income for the period | – | 9,416 | – | 9,416 | 401 | 9,817 |
| Transactions with owners: | | | | | | |
| Proceeds from shares issued | – | – | 9,500 | 9,500 | – | 9,500 |
| At 30 June 2016 (unaudited) | – | 79,295 | 9,500 | 88,795 | 2,678 | 91,473 |

The notes on pages 7 to 31 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended 30 June 2017

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Cash flows from operating activities | | |
| Net cash generated from operations | 24,648 | 31,432 |
| Interest received | 4 | 1 |
| Income tax paid | (427) | (225) |
| Net cash generated from operating activities | 24,225 | 31,208 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (309) | (60) |
| Proceeds from sale of assets held for sale | 6,621 | – |
| Net cash generated from/(used in) investing activities | 6,312 | (60) |
| Cash flows from financing activities | | |
| Repayments of borrowings | – | (10,408) |
| Capital element of finance lease payments | (56) | (225) |
| Proceeds from issuance of ordinary shares | – | 9,500 |
| Legal and professional fee paid for listing preparation | (1,491) | (777) |
| Interest paid | (395) | (477) |
| Dividends paid | (18,000) | (19,067) |
| Repayment to a director | (2,225) | – |
| Net cash used in financing activities | (22,167) | (21,454) |
| Increase in cash and cash equivalents | 8,370 | 9,694 |
| Cash and cash equivalents at beginning of the period | 44,357 | 63,951 |
| Currency translation differences | 616 | 416 |
| Cash and cash equivalents at end of period | 53,343 | 74,061 |

The notes on pages 7 to 31 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

M&L Holdings Group Limited (the “Company”) was incorporated in the Cayman Islands on 24 September 2015 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company’s registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company is an investment holding company and its subsidiaries are principally engaged in trading and lease of construction machinery and spare parts.

Pursuant to the group reorganisation as set out in the section headed “History and Corporate Structure” in the Company’s listing prospectus dated 30 June 2017 (the “Prospectus”), which was completed on 26 January 2016 (the “Reorganisation”), the Company became the holding company of its subsidiaries now comprising the Group. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 21 July 2017 (the “Listing Date”). The condensed consolidated interim financial information of the Group has been prepared as if the Group had always been in existence throughout both periods presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company pursuant to the Reorganisation.

This condensed consolidated interim financial information is presented in HK dollars (“HK\$”), unless otherwise stated.

The condensed consolidated interim financial information of the Group for the six months ended 30 June 2017 which have not been audited were approved for issue by the board of directors on 10 August 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). The condensed consolidated interim financial information should be read in conjunction with the Accountant’s Report set out in Appendix I to the Prospectus, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). It has been prepared under the historical cost convention, as modified by the revaluation of assets held for sale, which are carried at fair values.

The accounting policies used in the preparation of this condensed consolidated interim financial information are consistent with those described in the Accountant’s Report set out in Appendix I to the Prospectus, except for the adoption of revised HKFRSs which have become effective for accounting periods beginning on or after 1 January 2017 as disclosed below.

The preparation of this condensed consolidated interim financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are the significant to the condensed consolidated interim financial information, are disclosed in note 4 below.

ADOPTION OF NEW OR REVISED HKFRSs EFFECTIVE ON 1 JANUARY 2017

The following amendments to HKFRSs that are first effective for the current accounting periods and relevant to the Group:

| | |
|----------------------|--|
| HKAS 7 (amendment) | Statement of cash flows – disclosure initiative |
| HKAS 12 (amendment) | Recognition of deferred tax assets for unrealised losses |
| HKFRS 12 (amendment) | Annual improvement 2014-2016 cycle |

The adoption of these new standards and amendments to standards does not have any significant impact to the results and financial position of the Group’s condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PREPARATION (CONTINUED)

NEW OR REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new or amendments to HKFRSs, potentially relevant to the Group's accounting policies, have been issued, but are not effective and have not been early adopted by the Group.

| | | Effective for accounting period beginning on or after |
|----------|---------------------------------------|--|
| HKFRS 9 | Financial instruments | 1 January 2018 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2018 |
| HKFRS 16 | Leases | 1 January 2019 |

Management is in the process of making an assessment on the impact of these new and revised standards, amendments or interpretations but is not yet in a position to determine whether they will have a significant impact on the Group's results of operations and financial position.

3 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.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Accountant's Report set out in Appendix I to the Prospectus.

There have been no changes in the risk management or any risk management policies since the year end.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 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.

(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 financial 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 borrowing is assumed to approximate its fair value as the amount bears interest at commercial rate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the critical accounting estimates and judgements applied were consistent with those described in the Accountant's Report set out in Appendix I to the Prospectus.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 REVENUE AND SEGMENT INFORMATION

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|--|--|------------------|--|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Sales of goods | 44,157 | 70,724 | 96,297 | 132,169 |
| Repair and maintenance services income | 535 | 2,589 | 1,521 | 4,464 |
| Machinery rental income | - | 1 | - | 683 |
| | 44,692 | 73,314 | 97,818 | 137,316 |

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 percentage 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 three months and six months ended 30 June 2017 and 2016. The accounting policies of the reportable segments are the same as the Group's accounting policies.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

- (a) The reportable segments for the six months ended 30 June 2017 (unaudited) is as follows:

| | Tunnelling HK\$'000 | Foundation HK\$'000 | Total HK\$'000 |
|---|------------------------|------------------------|-------------------|
| Segment revenue (all from external customers) | 87,623 | 10,195 | 97,818 |
| Cost of sales | (63,940) | (8,569) | (72,509) |
| Segment results | 23,683 | 1,626 | 25,309 |
| Gross profit % | 27.03% | 15.95% | 25.87% |
| Other income | | | 506 |
| Other losses | | | (233) |
| Selling expenses | | | (2,036) |
| Administrative expenses | | | (18,616) |
| Operating profit | | | 4,930 |
| Finance income | | | 6 |
| Finance costs | | | (395) |
| Profit before income tax | | | 4,541 |
| Income tax expense | | | (2,104) |
| Profit for the period | | | 2,437 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

- (b) The reportable segments for the six months ended 30 June 2016 (unaudited) is as follows:

| | Tunnelling HK\$'000 | Foundation HK\$'000 | Total HK\$'000 |
|---|------------------------|------------------------|-------------------|
| Segment revenue (all from external customers) | 129,118 | 8,198 | 137,316 |
| Cost of sales | (94,305) | (6,148) | (100,453) |
| Segment results | 34,813 | 2,050 | 36,863 |
| Gross profit % | 26.96% | 25.00% | 26.85% |
| Other income | | | 326 |
| Other losses | | | – |
| Selling expenses | | | (4,018) |
| Administrative expenses | | | (20,549) |
| Operating profit | | | 12,622 |
| Finance income | | | 3 |
| Finance costs | | | (477) |
| Profit before income tax | | | 12,148 |
| Income tax expense | | | (2,798) |
| Profit for the period | | | 9,350 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

| | Unaudited Six months ended 30 June | |
|-----------------|--|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Hong Kong | 26,880 | 48,404 |
| The PRC | 55,025 | 59,683 |
| Singapore | 15,736 | 29,229 |
| Other countries | 177 | – |
| | 97,818 | 137,316 |

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

| | Unaudited 30 June 2017 HK\$'000 | Audited 31 December 2016 HK\$'000 |
|-----------|--|--|
| Hong Kong | 7,002 | 7,581 |
| The PRC | 237 | 7 |
| Singapore | 8,329 | 8,081 |
| | 15,568 | 15,669 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 EXPENSES BY NATURE

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|---|--|----------|--|----------|
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 33,001 | 52,111 | 72,398 | 100,193 |
| Employee benefit expenses | 3,615 | 5,533 | 9,083 | 10,893 |
| Depreciation (Note 9(B)) | 327 | 202 | 658 | 476 |
| Amortisation (Note 9(A)) | 25 | 25 | 50 | 50 |
| Machine rental expenses | - | 64 | - | 64 |
| Freight charge | 597 | 1,161 | 1,522 | 2,273 |
| Legal and professional fee for listing preparation | 2,037 | 898 | 6,301 | 1,570 |
| Operating lease charges on land and buildings | 707 | 514 | 1,509 | 1,050 |
| Exchange (gains)/losses | (923) | 1,686 | (1,931) | 713 |
| (Reversal of provision for)/Provision for impairment of trade receivables | (28) | 2,344 | (254) | 3,520 |
| Entertainment expenses | 179 | 200 | 677 | 955 |
| Travelling expense | 455 | 408 | 765 | 674 |
| Advertising expenses | 6 | 5 | 23 | 26 |
| Motor vehicle expenses | 246 | 269 | 481 | 545 |
| Others | 638 | 1,182 | 1,879 | 2,018 |
| Total cost of sales, selling expenses and administrative expenses | 40,882 | 66,602 | 93,161 | 125,020 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 INCOME TAX EXPENSE

The Group is not subject to taxation in the Cayman Islands and British Virgin Islands. Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit for the three months and six months ended 30 June 2017 and 2016. 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 three months and six months ended 30 June 2017 and 2016. 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 three months and six months ended 30 June 2017 and 2016.

The amounts of income tax expense in the condensed consolidated statement of comprehensive income represents:

| | Unaudited | | Unaudited | |
|---------------------------------------|--------------------|----------|------------------|----------|
| | Three months ended | | Six months ended | |
| | 30 June | | 30 June | |
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Current taxation | | | | |
| – Hong Kong profits tax | 723 | 1,179 | 1,394 | 2,314 |
| – Mainland China corporate income tax | 534 | – | 534 | – |
| – Taxation on overseas profits | 34 | 272 | 50 | 471 |
| Deferred income tax | 158 | 133 | 126 | 13 |
| Income tax expense | 1,449 | 1,584 | 2,104 | 2,798 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 EARNINGS PER SHARE

(A) BASIC

The basic earnings per share is calculated on the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective periods. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation completed on 26 January 2016 and the Capitalisation Issue (as defined in the Prospectus) which took place on 21 July 2017. It does not take into account of issue of new shares pursuant to the Share Offer (as defined in the Prospectus) which took place after 30 June 2017.

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|--|--|---------|--|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Profit attributable to equity holders of the Company (HK\$'000) | 2,074 | 4,781 | 2,087 | 8,951 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (thousands) | 450,000 | 450,000 | 450,000 | 447,064 |
| Basic earnings per share (HK cents) | 0.46 | 1.06 | 0.46 | 2.00 |

(B) DILUTED

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 PREPAID LAND PREMIUM AND PROPERTY, PLANT AND EQUIPMENT

(A) PREPAID LAND PREMIUM

The Group's prepaid land premium represents prepaid operating lease payments for the use of land relating to a property owned by the Group located in Singapore and their net book amounts are analysed as follows:

| | Unaudited | Unaudited |
|---|--------------|-----------|
| | 30 June | 30 June |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Opening net book amount as at 1 January | 5,195 | 5,415 |
| Amortisation of prepaid land premium | (50) | (50) |
| Exchange difference | 298 | 277 |
| Closing net book amount as at 30 June | 5,443 | 5,642 |

All amortisation expenses for the periods ended 30 June 2017 and 2016 have been recorded in administrative expenses.

(B) PROPERTY, PLANT AND EQUIPMENT

| | Unaudited | Unaudited |
|---|---------------|-----------|
| | 30 June | 30 June |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Opening net book amount as at 1 January | 10,474 | 4,280 |
| Additions | 309 | 60 |
| Disposals | (167) | – |
| Depreciation | (658) | (476) |
| Exchange difference | 167 | 159 |
| Closing net book amount as at 30 June | 10,125 | 4,023 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 ASSETS HELD FOR SALE

On 30 November 2016, the Group entered into provisional agreements for sales and purchases with independent third parties pursuant to which the Group disposed of these investment properties to the independent third parties, at a total cash consideration of HK\$6,702,000, net of commission fees of HK\$67,000. Accordingly, the investment properties were reclassified as assets held for sale as at 31 December 2016.

The fair value of assets held for sale is HK\$6,690,000 as at 31 December 2016.

The disposals were completed on 28 February 2017.

11 TRADE AND OTHER RECEIVABLES

| | Unaudited | Audited |
|---|-----------------------------|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Trade receivables | 66,716 | 79,639 |
| Less: allowance for impairment of trade receivables | (9,302) | (9,289) |
| Trade receivables – net | 57,414 | 70,350 |
| Bills receivables | 1,494 | 1,334 |
| Prepayments | | |
| – Professional fee for listing preparation | 3,857 | 2,366 |
| – Others | 524 | 479 |
| Trade and other deposits paid | 650 | 877 |
| Other receivables | 1,352 | 326 |
| | 65,291 | 75,732 |
| Less: Non-current portion deposits | (300) | (288) |
| | 64,991 | 75,444 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11 TRADE AND OTHER RECEIVABLES (CONTINUED)

The credit terms granted by the Group generally ranged up to 180 days. The ageing analysis of these trade receivables based on invoice date is as follows:

| | Unaudited | Audited |
|-----------------|-----------------------------|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| 0 to 30 days | 11,905 | 24,971 |
| 31 to 60 days | 6,840 | 11,252 |
| 61 to 90 days | 8,360 | 4,541 |
| 91 to 180 days | 3,941 | 10,131 |
| 181 to 365 days | 12,482 | 7,231 |
| 1 to 2 years | 13,210 | 11,553 |
| Over 2 years | 676 | 671 |
| | 57,414 | 70,350 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 SHARE CAPITAL

On 24 September 2015, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of US\$50,000 consisting of 5,000,000 ordinary shares of US\$0.01 each. As of the date of incorporation, one ordinary share of US\$0.01 was allotted and issued to and fully paid up by an initial subscriber at its par value. On the same date, the one ordinary share of US\$0.01 was transferred to Mr. Ng Lai Ming. On 9 December 2015, the authorised share capital of the Company was changed to Hong Kong dollars in denomination and increased to HK\$380,000, consisting of 38,000,000 shares with par value of HK\$0.01 each. The one issued ordinary share denominated in US\$ was repurchased by the Company at its par value and all unissued share capital in US\$ were cancelled. On the same date, 10 ordinary shares were allotted and issued to Mr. Ng Lai Ming at par of HK\$0.01 each.

On 25 January 2016, the Company issued and allotment of 8,681 shares, 439 shares and 395 shares as fully paid by the Company to Mr. Ng Lai Ming, Mr. Cheung King and Mr. Ng Lai Tong respectively, as part of the Reorganisation.

On 26 January 2016, Best Field Inc. (the "Pre-IPO Investor") entered into the Pre-IPO subscription agreement (the "Pre-IPO Investment") with Mr. Yeung Shiu Kin Eddie and the Company for subscription of 475 shares (representing 4.75% of the then enlarged issued share capital of the Company upon completion of the Pre-IPO Investment on a fully-diluted basis) for the consideration of HK\$9,500,000.

Subsequent to the period end, on 21 July 2017, pursuant to the Capitalisation Issue (as defined in the Prospectus), the Company issued a total number of additional 449,990,000 shares, credited as fully paid, to Mr. Ng Lai Ming, Mr. Ng Lai Tong, Mr. Cheung King, Mr. Ng Lai Po and the Pre-IPO Investor respectively, based on their respective number of shares.

Subsequent to the period end, on 21 July 2017, pursuant to the Share Offer (as defined in the Prospectus), the Company issued a total of 150,000,000 shares at a price of HK\$0.01 per share.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 SHARE CAPITAL (CONTINUED)

Before alteration of denominated currency of authorised share capital

| | Number of ordinary shares | Share capital US\$ |
|--|------------------------------|--------------------------|
| Authorised: | | |
| Ordinary share of US\$0.01 each at 24 September 2015 (date of incorporation of the Company) | 5,000,000 | 50,000 |
| Issued and fully paid: | | |
| At 24 September 2015 (date of incorporation of the Company) | 1 | 0.01 |

After alteration of denominated currency of authorised share capital

| | Number of ordinary shares | Share capital HK\$ |
|---|------------------------------|--------------------------|
| Authorised: | | |
| Ordinary share of HK\$0.01 each at 9 December 2015, 31 December 2016, and 30 June 2017 | 38,000,000 | 380,000 |
| Issued and fully paid: | | |
| At 9 December 2015 and 31 December 2015 | 10 | 0.1 |
| Issuance of shares arising from Reorganisation | 9,515 | 95.15 |
| Issuance of shares to the Pre-IPO investor | 475 | 4.75 |
| At 31 December 2016 and 30 June 2017 | 10,000 | 100 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 RESERVES AND SHARE PREMIUM

| | Capital reserve HK\$'000 (note (a)) | Statutory reserve HK\$'000 | Translation reserve HK\$'000 | Share premium HK\$'000 (note (b)) | Retained earnings HK\$'000 | Total HK\$'000 |
|---|---|-------------------------------|---------------------------------|---|-------------------------------|-------------------|
| Balance at 1 January 2017 | 15,642 | 436 | (934) | 9,500 | 63,984 | 88,628 |
| Comprehensive income: | | | | | | |
| Profit for the period | - | - | - | - | 2,087 | 2,087 |
| Currency translation difference | - | - | 698 | - | - | 698 |
| Transactions with owners: | | | | | | |
| Transfer to statutory reserve | - | 179 | - | - | (179) | - |
| Dividends declared to equity holders of the Company | - | - | - | - | (18,000) | (18,000) |
| Balance at 30 June 2017 (unaudited) | 15,642 | 615 | (236) | 9,500 | 47,892 | 73,413 |
| Balance at 1 January 2016 | 15,642 | 436 | (533) | - | 54,334 | 69,879 |
| Comprehensive income: | | | | | | |
| Profit for the period | - | - | - | - | 8,951 | 8,951 |
| Currency translation difference | - | - | 465 | - | - | 465 |
| Transactions with owners: | | | | | | |
| Proceeds from shares issued | - | - | - | 9,500 | - | 9,500 |
| Balance at 30 June 2016 (unaudited) | 15,642 | 436 | (68) | 9,500 | 63,285 | 88,795 |

Notes:

- (a) Capital reserve of HK\$15,642,000 as at 30 June 2017 and 30 June 2016 included:
- reserve of HK\$989,000, representing difference between the fair value of the consideration paid and the carrying amount of net assets attributable to the additional interest in a group of subsidiaries being acquired from non-controlling interests on 12 September 2013; and
 - reserve of HK\$14,653,000, representing difference between the carrying value of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange thereof.
- (b) Share premium of HK\$9,500,000 was recognised upon issuance and allotment of shares to Mr. Yeung Shiu Kin Eddie on 26 January 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 TRADE AND OTHER PAYABLES

| | Unaudited | Audited |
|------------------|---------------|-------------|
| | 30 June | 31 December |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Trade payables | 53,988 | 45,129 |
| Accrued expenses | 3,225 | 4,823 |
| Other payables | 342 | 670 |
| | 57,555 | 50,622 |

- (a) The carrying amounts of trade and other payables approximate their fair values as at 30 June 2017 and 31 December 2016.
- (b) The ageing analysis of trade payables based on invoice date is as follows:

| | Unaudited | Audited |
|---------------|---------------|-------------|
| | 30 June | 31 December |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| 0 – 30 days | 5,704 | 8,124 |
| 31 – 60 days | 11,620 | 18,731 |
| 61 – 90 days | 13,068 | 12,070 |
| 91 – 120 days | 10,710 | 3,024 |
| Over 120 days | 12,886 | 3,180 |
| | 53,988 | 45,129 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 DIVIDEND PAYABLE

The amount is unsecured, interest-free, repayable on demand and denominated in HK\$. Its carrying amount at 30 June 2017 and 31 December 2016 approximates its fair value.

Dividend amounting to HK\$7,980,000 (31 December 2016: HK\$6,510,000) is payable to a non-controlling shareholder of a company now comprising the Group, Genghiskhan Land Holdings Limited ("Genghiskhan") as at 30 June 2017. Genghiskhan was struck off from the Register of Companies of the BVI on 30 April 1998 and subsequently dissolved on 30 April 2008. If Genghiskhan remains dissolved continuously for a period of 10 years from 30 April 2008 (i.e. on 29 April 2018), it cannot be restored and the corresponding dividend payable would be written back.

16 AMOUNTS DUE TO DIRECTORS

The amounts due to directors as at 31 December 2016 were unsecured, interest-free and repayable on demand. Their carrying amounts approximated their fair values. Further information on amounts due to directors is shown as below:

| | Unaudited | Audited |
|-------------------|-----------------------------|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Amount due to: | | |
| – Mr. Ng Lai Tong | – | 2,333 |
| – Mr. Cheung King | – | 1,211 |
| Advance from: | | |
| – Mr. Ng Lai Ming | – | 2,141 |
| | – | 5,685 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 BORROWINGS

| | Unaudited | Audited |
|-------------------------------|-----------|-------------|
| | 30 June | 31 December |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Non-current | | |
| Finance lease liabilities (B) | – | 59 |
| | – | 59 |
| Current | | |
| Unsecured bank loans (A) | 20,000 | 20,000 |
| Finance lease liabilities (B) | 116 | 113 |
| | 20,116 | 20,113 |
| Total | 20,116 | 20,172 |

(A) BANK LOANS

| | Unaudited | Audited |
|--|-----------|-------------|
| | 30 June | 31 December |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Current liabilities | | |
| Portion of unsecured bank loans due for repayment within one year which contain a repayment on demand clause | 20,000 | 20,000 |
| | 20,000 | 20,000 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 BORROWINGS (CONTINUED)

(B) FINANCE LEASE LIABILITIES

The finance lease liabilities were repayable as follows:

| | Minimum lease payments | |
|---|------------------------|-------------|
| | Unaudited | Audited |
| | 30 June | 31 December |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| No later than 1 year | 119 | 119 |
| Later than 1 year and no later than 5 years | – | 60 |
| | 119 | 179 |
| Future finance charges on finance leases | (3) | (7) |
| Present value of finance lease liabilities | 116 | 172 |
| The present value of finance lease liabilities is as follows: | | |
| No later than 1 year | 116 | 113 |
| Later than 1 year and no later than 5 years | – | 59 |
| | 116 | 172 |

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 BORROWINGS (CONTINUED)

(C) BANKING FACILITIES

The Group has obtained total banking facilities from banks of approximately HK\$37,000,000 as at 30 June 2017 (31 December 2016: HK\$37,000,000), of which HK\$17,000,000 as at 30 June 2017 (31 December 2016: HK\$17,000,000) has not been utilised respectively.

The above bank loans and other banking facilities are secured by the followings:

- (i) the Group's bank deposits of approximately HK\$2.5 million as at 30 June 2017 (31 December 2016: HK\$2.5 million);
- (ii) personal guarantees jointly and severally provided by Mr. Ng Lai Ming and Mr. Ng Lai Tong;
- (iii) corporate guarantees provided by M & L Engineering & Materials Limited and East Focus Engineering Services Limited.

* *The above personal guarantees (see (ii) above) have been released and replaced by the corporate guarantees provided by the Company upon listing of the Company on 21 July 2017.*

- (D) The carrying amounts of the borrowings approximate their fair values as at 30 June 2017 and 31 December 2016 respectively, and are denominated in HK dollar.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 DIVIDENDS

The Company declared interim dividends of HK\$10,000,000 and HK\$1,120,000 to the then equity holders of the Company and non-controlling interests, respectively, on 9 March 2017, and interim dividends of HK\$8,000,000 and HK\$350,000 to the then equity holders of the Company and non-controlling interests, respectively, on 20 April 2017. The portion attributable to the equity holders of the Company was fully settled before 30 June 2017.

Other than the above, the Board does not declare an interim dividend for the six months ended 30 June 2017 and 2016.

19 COMMITMENTS

OPERATING LEASE COMMITMENTS – AS LESSEE

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Unaudited | Audited |
|--|-----------------------------|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| No later than one year | 2,200 | 2,702 |
| Later than one year and no later than five years | 847 | 1,074 |
| | 3,047 | 3,776 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 RELATED PARTY TRANSACTIONS

(A) SIGNIFICANT RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in this condensed consolidated interim financial information, the following transactions were carried out with related parties in the normal course of the Group's business during the three months and six months ended 30 June 2017 and 2016:

| | | Unaudited Three month, ended 30 June | | Unaudited Six months ended 30 June | |
|---|------|--|------------------|--|------------------|
| | Note | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Discontinued transactions: | | | | | |
| Sales of goods to a related company | (i) | - | - | - | 88 |
| Purchases of goods from a related company | (i) | - | - | - | (698) |

Notes:

- (i) The above transactions with a related company, Palmieri Foshan Tunneling Equipment Limited ("Palmieri China"), were carried out in the ordinary course of business and conducted at prices mutually agreed between the relevant parties. Palmieri China is a subsidiary of MEK Group Company Limited, in which Mr. Ng Lai Ming, Mr. Ng Lai Tong and Mr. Cheung King were shareholders holding 35% interests in total, and was subsequently disposed of by Mr. Ng Lai Ming, Mr. Ng Lai Tong and Mr. Cheung King on 25 January 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 RELATED PARTY TRANSACTIONS (CONTINUED)

(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:

| | Unaudited | | Unaudited | |
|--|--------------------|----------|------------------|----------|
| | Three months ended | | Six months ended | |
| | 30 June | | 30 June | |
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Salaries, wages and other benefits | 1,504 | 1,424 | 3,007 | 2,847 |
| Contributions to defined contribution retirement plans | 52 | 50 | 103 | 104 |
| | 1,556 | 1,474 | 3,110 | 2,951 |

21 EVENT AFTER THE REPORTING PERIOD

Save as disclosed in other parts of this report, the following significant event took place subsequent to 30 June 2017:

The Company successfully listed its shares on GEM on 21 July 2017. The Company issued a total of 150,000,000 shares by way of public offer and placing at a price of HK\$0.47 each and successfully listed its share on GEM Board of The Stock Exchange of Hong Kong Limited. The net proceeds after deducting underwriting fees and related expenses were approximately HK\$41,800,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BACKGROUND AND RECENT DEVELOPMENT AND OUTLOOK

Our Company was incorporated on 24 September 2015 in the Cayman Island as an exempted company with limited liability and became the holding company of the subsidiaries comprising the Group on 25 January 2016. Details of the corporate reorganisation are set out in the section headed “History And Corporate Structure – Reorganisation” to the Prospectus.

The Company’s shares (the “Shares”) were successfully listed on the GEM of the Stock Exchange on 21 July 2017 (the “Listing”) by ways of placing and public offer (the “Share Offer”).

We position ourselves as an integrated engineering solutions provider in connection with specialised cutting tools and parts for construction equipment with particular focus on disc cutters. Disc cutters are widely used in conjunction with tunnel boring machines (“TBM”) and micro-tunnelling equipment and typically applied towards the excavation of tunnels with circular cross section through a variety of soil and rock strata. In addition to our focus in tunnelling sector, we also provide integrated engineering solutions to our customers in the foundation sector.

In general, our integrated engineering solutions involve (i) the supply of specialised cutting tools and parts for construction 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 categorised into two segments, namely tunnelling and foundation.

For the Hong Kong market, for the six months ended 30 June 2017, a customer of tunnelling project, in which we have entered into master framework contract for the supply of specialised cutting tools and parts for the construction equipment, have delayed in placing purchase orders to us. We conservatively believe that the shortfall in revenue from the customer can be partly recovered in the second half of year 2017 and later periods. As set out in the section headed “Industry Overview” to the Prospectus, as several TBM tunnel works in Hong Kong finished by 2015, the industry was witnessing a moderate drop in the contract value of TBM tunnelling works, which had in turn adversely affected our revenue and financial performance in Hong Kong.

For the PRC market, for the six months ended 30 June 2017, the performance has been kept up with last year.

The Company is keen on broadening the customer base and enhancing our competitiveness in the PRC and Singapore, as well as utilising Singapore as a regional hub to seek opportunities for expansion into Malaysia and Indonesia with our spare capacity. Concerning about the Malaysia market, recently we have received the initial order from Mass Rapid Transit project in Kuala Lumpur. We will take this initial order as a pivotal point for entering Malaysia market, and would be prudently optimistic in expansion of Malaysia market.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

REVENUE

Our revenue decreased by approximately HK\$39.5 million, or 28.8%, from approximately HK\$137.3 million for the six months ended 30 June 2016 to approximately HK\$97.8 million for the six months ended 30 June 2017. The decrease was primarily attributable to the decrease in revenue recognised for our tunnelling segment by approximately HK\$41.5 million, or 32.1%, from approximately HK\$129.1 million for the six months ended 30 June 2016 to approximately HK\$87.6 million for the six months ended 30 June 2017. From the perspective of geographic locations of our customers, revenue derived from customers based in Hong Kong, China and Singapore decreased from approximately HK\$48.4 million, HK\$59.7 million & HK\$29.2 million to approximately HK\$26.9 million, HK\$55.0 million & HK\$15.7 million from the corresponding prior period last six months, 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 decreased by approximately HK\$27.9 million, or 27.8%, from approximately HK\$100.5 million for the six months ended 30 June 2016 to approximately HK\$72.5 million for the six months ended 30 June 2017. Such movement was primarily attributable to the decrease in cost of inventory sold associated with our decrease in revenue.

GROSS PROFIT

Our gross profit decreased by approximately HK\$11.6 million, or 31.3%, from approximately HK\$36.9 million for the six months ended 30 June 2016 to approximately HK\$25.3 million for the six months ended 30 June 2017. Our gross profit margin decreased slightly from approximately 26.8% for the six months ended 30 June 2016 to approximately 25.9% for the six months ended 30 June 2017.

OTHER INCOME AND OTHER LOSSES

The other income and other losses, primarily consisted of (i) inspection charges and (ii) loss from disposal of property, plant and equipment. Other income and other losses remained stable at approximately HK\$0.3 million for the six months ended 30 June 2017 and 2016.

SELLING EXPENSES

Selling expenses mainly include freight charges and selling commission for our staff accounted for under the employee benefit expenses. Selling expenses decreased from approximately HK\$4.0 million for the six months ended 30 June 2016 to HK\$2.0 million for the six months ended 30 June 2017, which was mainly attributable to the decrease in revenue recorded by our Group.

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

Administrative expenses mainly include staff costs, Directors' remuneration and benefits (both accounted for under the employee benefit expenses), legal and professional fees for listing preparation, operating lease charges on land and buildings, provision for impairment of trade receivable and other administrative expenses. Administrative expenses decreased by approximately HK\$1.9 million or 9.4% from approximately HK\$20.5 million for the six months ended 30 June 2016 to approximately HK\$18.6 million for the six months ended 30 June 2017.

FINANCE INCOME AND FINANCE COSTS

The net amount of finance costs decreased by approximately HK\$0.1 million from approximately HK\$0.5 million for the six months ended 30 June 2016 to approximately HK\$0.4 million for the six months ended 30 June 2017. Such decrease was mainly attributable to the decrease in finance costs related to bank borrowings.

INCOME TAX EXPENSE

Our income tax represents Hong Kong profits tax, PRC enterprise income tax and Singapore corporate income tax. Our Group was not subject to any income tax in the Cayman Islands. The provision for Hong Kong profits tax was calculated at 16.5% of the relevant estimated assessable profits, our PRC subsidiary was subject to the statutory enterprise income tax rate of 25%. The corporate income tax rate in Singapore is 17% on chargeable income. Our income tax expenses decreased by approximately HK\$0.7 million or 24.8% from approximately HK\$2.8 million for the six months ended 30 June 2016 to approximately HK\$2.1 million for the six months ended 30 June 2017. The decrease was primarily due to a decrease in our Group's assessable profits for the six months ended 2017. Due to listing expenses incurred in the six months ended 2017 which was not deductible for tax purpose, resulting in a rise in effective tax rate for the period.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF OUR COMPANY

We recorded a profit attributable to equity holders of our Company for the six months ended 30 June 2017 of approximately HK\$2.1 million, representing a decrease of approximately 76.7% from approximately HK\$9.0 million for the six months ended 30 June 2016. If we do not take into account of the listing expenses, the profit attributable to equity holders of our Company for the six months ended 30 June 2017 would be approximately HK\$8.4 million, representing a decrease of approximately 20.3% from approximately HK\$10.5 million for the six months ended 30 June 2016.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

| | Unaudited | Audited |
|---------------------|-----------------------------|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Current assets | 147,219 | 160,663 |
| Current liabilities | 86,511 | 83,778 |
| Current ratio | 1.70 | 1.92 |

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE (CONTINUED)

During the six months ended 30 June 2017, the Group financed its operations by its internal resources and bank facilities. As at 30 June 2017, the Group had net current assets of approximately HK\$60.7 million (31 December 2016: HK\$76.9 million), including cash and cash equivalents of approximately HK\$53.3 million (31 December 2016: HK\$44.4 million). The Group's current ratio as at 30 June 2017 was 1.70 times (31 December: 1.92 times).

As at 30 June 2017, the Group had a total available banking and other facilities of approximately HK\$37.0 million, of which approximately HK\$20.0 million was utilised and approximately HK\$17.0 million was unutilised and available for use.

Please refer to note 17 to the condensed consolidated interim financial information for more detailed information, including maturity profile, on the Group's loans and borrowings.

The shares of the Company were listed on GEM on 21 July 2017, 15,000,000 and 135,000,000 of the Company's shares at a price of HK\$0.47 were issued on the same day by public offer and placing, respectively. There has been no change in capital structure of the Company since 21 July 2017. As at 30 June 2017, the equity attributable to equity holders of the Company amounted to approximately HK\$73.4 million (31 December 2016: approximately HK\$88.6 million).

GEARING RATIO

Our Directors confirmed that as at each of 30 June 2017 and 31 December 2016, we maintained a net cash position. On this basis, we did not record a gearing ratio.

FOREIGN CURRENCY EXPOSURE AND TREASURY POLICY

During the six months ended 30 June 2017, other than Hong Kong dollars, the major currencies of which our Group transacted in consisted primarily of EUR and RMB (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 2016 and 30 June 2017, we had no capital commitment.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPLIANCE IN RELATION TO IMPORT AND EXPORT DECLARATIONS

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 in all material respects 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 30 June 2017. Details of the compliance in relation to import and export declaration are set out in the section headed “Business – Regulatory Compliance” to the Prospectus.

SIGNIFICANT INVESTMENTS

During the six months ended 30 June 2017, the Group did not hold any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not carry out any material acquisition nor disposal of any subsidiary during the six months ended 30 June 2017.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities.

INTERIM DIVIDEND

The Company declared interim dividends of HK\$10,000,000 and HK\$1,120,000 to the then equity holders of the Company and non-controlling interests, respectively, on 9 March 2017, and interim dividends of HK\$8,000,000 and HK\$350,000 to the then equity holders and non-controlling interests, respectively, on 20 April 2017. The portion attributable to the equity holders of the Company was fully settled before 30 June 2017.

Other than the above, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017.

EMPLOYEES AND REMUNERATION

As at 30 June 2017, the Group had 50 staff (31 December 2016: 49). The total employee benefit expenses for the six months ended 30 June 2017 (including salary, commission, discretionary bonuses and allowances) was approximately HK\$9.1 million. We determine our employees' remuneration based on factors such as qualifications, position, contribution and years of experience. The key principles of the remuneration policy are to remunerate employees in a manner that is market competitive.

We also place an emphasis on the continuing education and training of our staff necessary for them to perform their functions.

During the six months ended 30 June 2017, the Group has not experienced any significant problems with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As the Shares were listed on 21 July 2017, no material progress has been made in respect of the business objectives as set out in the Prospectus for the six months ended 30 June 2017.

USE OF PROCEED FROM THE LISTING

The estimated net proceeds from the Share Offer, after deducting underwriting fees and related expenses, amounted to approximately HK\$39.0 million. The net proceeds from the Share Offer were approximately HK\$41.8 million, which was difference from the estimated net proceeds of approximately HK\$39.0 million. We intend to adjust the difference of HK\$2.8 million in the same manner and in the same proportion to the use of proceeds as shown in the Prospectus. The Directors had evaluated the Group's business plan and considered that, as at the date of this report, no modification of the business plan regarding the use of proceeds as described in the Prospectus was required. Since the Listing Date, the unused net proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

Immediately following completion of the Listing, the interests and short positions of the directors in the shares, underlying shares or debentures of the Company and our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")), which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to notify to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, are as followed:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

| Name of Director | Nature of interest | Number of shares | Percentage of the Company's issued share capital |
|------------------|---|------------------|--|
| Mr. Ng Lai Ming | 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.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (CONTINUED)

(B) DIRECTORS' INTEREST IN ASSOCIATED CORPORATIONS OF THE COMPANY

| Name of Director | Associated Corporation | Nature of interest | Number of shares/ Position | Percentage of shareholding |
|------------------|----------------------------|--------------------|-------------------------------|-------------------------------|
| Mr. Ng Lai Ming | JAT United Company Limited | Beneficial owner | 1/Long position | 100% |

Save as disclosed above, as at the date of this report, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to notify to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to our Directors or chief executive, immediately following completion of the Listing, the following person(s), not being a Director or chief executive of our Company, will have an interest or short position in our Shares or our underlying shares 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 will be required pursuant to section 336 of the SFO to be entered in the register referred to therein or will be, 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 shares of the Company:

| Name | Capacity/Nature of interest | Number of shares held | Percentage of the Company's issued share capital |
|-------------------------------------|-----------------------------|--------------------------|---|
| JAT United Company Limited (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 Company Limited is wholly owned by Mr. Ng Lai Ming. Mr. Ng Lai Ming is deemed to be interested in all the shares held by JAT Company Limited 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.

Saved as disclosed above, as at the date of this report, no other person had any interests or short positions in the shares of underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which will be required pursuant to section 336 of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEME

The Company has a share option scheme (the “Share Option Scheme”) which was approved and conditionally adopted by the shareholders of the Company by way of written resolutions passed on 19 June 2017.

No share option has been granted under the Share Option Scheme since its adoption.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities from the Listing Date to the date of this report.

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 since the Listing Date up to the date of this report.

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 (“CG Code”) as set out in Appendix 15 of the GEM Listing Rules effective from the Listing Date and had complied with the CG Code since then 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.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPETING INTEREST

None of the Directors, substantial shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or is likely to compete with the business of the Group during the six months ended 30 June 2017.

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 commencing 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.

AUDIT COMMITTEE

The audit 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 Rule 5.28 of the GEM Listing Rules and paragraph C3 of the CG Code. The members of the audit committee are Mr. Tai Wai Kwok, Ir Lo Kok Keung and Mr. Lau Chi Leung, all of whom are independent non-executive Directors. Mr. Tai Wai Kwok is the chairman of the audit committee. The audit committee has reviewed this report and has provided advice and comments thereon.

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

Hong Kong, 10 August 2017

As at the date of this report, the executive Directors are Mr. Ng Lai Ming, Mr. Ng Lai Tong, Mr. Cheung King and Mr. Ng Lai Po and the independent non-executive Directors are Mr. Tai Wai Kwok, Ir Lo Kok Keung and Mr. Lau Chi Leung.