

TLMC

TAK LEE MACHINERY HOLDINGS LIMITED
德利機械控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8142



2017-2018

FIRST QUARTERLY REPORT

RESULTS FOR THE THREE MONTHS ENDED 31 OCTOBER 2017

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 of the Stock Exchange 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 (collectively the “**Directors**” or individually a “**Director**”) of Tak Lee Machinery Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) 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.*

FIRST QUARTERLY RESULTS

The board of Directors (the “**Board**”) is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 October 2017 together with the unaudited comparative figures for the corresponding period in 2016. The information should be read in conjunction with the prospectus of the Company dated 17 July 2017 (the “**Prospectus**”). Capitalised terms used in this report shall have the same respective meanings as those defined in the Prospectus unless otherwise stated.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 October 2017

	Note	Three months ended 31 October	
		2017 HK\$'000	2016 HK\$'000
Revenue	3	90,882	63,281
Cost of sales		(78,585)	(50,670)
Gross profit		12,297	12,611
Other income and net gains		391	53
Administrative and other operating expenses		(4,674)	(8,256)
Profit from operations		8,014	4,408
Finance costs		(485)	(204)
Profit before tax		7,529	4,204
Income tax expense	4	(1,266)	(1,252)
Profit and total comprehensive income for the period attributable to owners of the Company	5	6,263	2,952
Earnings per share			
– Basic and diluted (HK cents per share)	7	0.63	0.39

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the three months ended 31 October 2017*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 August 2017 (audited)	10,000	92,661	2,620	171,854	277,135
Profit and total comprehensive income for the period	<u> -</u>	<u> -</u>	<u> -</u>	<u> 6,263</u>	<u> 6,263</u>
At 31 October 2017 (unaudited)	<u> 10,000</u>	<u> 92,661</u>	<u> 2,620</u>	<u> 178,117</u>	<u> 283,398</u>
At 1 August 2016 (audited)	3,000	-	-	159,753	162,753
Profit and total comprehensive income for the period	<u> -</u>	<u> -</u>	<u> -</u>	<u> 2,952</u>	<u> 2,952</u>
At 31 October 2016 (unaudited)	<u> 3,000</u>	<u> -</u>	<u> -</u>	<u> 162,705</u>	<u> 165,705</u>

NOTES

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands on 11 December 2015. The issued shares of the Company were initially listed on the GEM of the Stock Exchange (the “**Listing**”) on 27 July 2017. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is DD111, Lot No. 117, Sheung Che Village, Pat Heung, Yuen Long, New Territories, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in providing sales of heavy equipment and spare parts, leasing of heavy equipment and provision of maintenance and ancillary services in Hong Kong.

In the opinion of the Directors, the immediate and ultimate holding company of the Company is Generous Way Limited (“**Generous Way**”), a company incorporated in the British Virgin Islands (“**BVI**”).

Pursuant to a group reorganisation (the “**Reorganisation**”) to rationalise the structure of the Group in preparation for the Listing, the Company became the holding company of the Group. Details of the Reorganisation are set out in the section headed “History, Reorganisation and Group structure” in the Prospectus.

2. BASIS OF PRESENTATION AND PREPARATION

As a result of the Reorganisation, the Group is regarded as a continuing entity resulting from the Reorganisation since management of the entities comprising the Group which took part in the Reorganisation remained the same before and after the Reorganisation. Thus, there was a continuation of the risks and benefits to the controlling shareholders that existed prior to the Reorganisation.

All intra-group transactions and balances have been eliminated.

The unaudited consolidated financial statements of the Group for the three months ended 31 October 2017 (the “**Unaudited Consolidated Financial Statements**”) have been prepared in accordance with the Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the Unaudited Consolidated Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31 July 2017.

The HKICPA has issued a number of new and revised HKFRSs. For those which are relevant to the Group’s operations and effective for its accounting period beginning 1 August 2017, the adoption has no significant changes on the Group’s accounting policies as well as the presentation, the reported results and the financial position of the Group for the current or prior accounting periods.

The Group has not applied the new and revised HKFRSs which have been issued but are not yet effective. The Group is currently in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether they would have a material impact on the Group's results and financial position.

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

The preparation of the Unaudited Consolidated Financial Statements in conformity with the HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

The consolidated financial statements for the three months ended 31 October 2017 have not been audited by the Company's independent auditor, but have been reviewed by the audit committee of the Board (the "Audit Committee").

The Unaudited Consolidated Financial Statements are presented in Hong Kong dollars ("HK\$") which is also the functional currency of the Group, and all values are rounded to the nearest thousands, except when otherwise indicated.

3. REVENUE

Revenue represents the income received and receivable from the sales of heavy equipment and spare parts, lease of heavy equipment and machinery and ancillary services for the three months ended 31 October 2017 and is summarised as follows:

	Three months ended 31 October	
	2017 HK\$'000	2016 HK\$'000
Sales of heavy equipment and spare parts	79,779	61,040
Lease of heavy equipment	9,277	1,694
Maintenance and ancillary services	1,826	547
	<u>90,882</u>	<u>63,281</u>

4. INCOME TAX EXPENSE

The income tax expense in the unaudited consolidated statement of profit or loss and other comprehensive income represents:

	Three months ended 31 October	
	2017 HK\$'000	2016 HK\$'000
Current tax		
– Hong Kong profits tax	636	1,334
Deferred tax	630	(82)
	<u>1,266</u>	<u>1,252</u>

The Company was incorporated in the Cayman Islands and TLMC Company Limited was incorporated in the BVI that are tax exempted as no business was carried in the Cayman Islands and the BVI under the tax laws of the Cayman Islands and the BVI.

Hong Kong profits tax has been provided at a rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the three months ended 31 October 2017.

5. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging/(crediting) the following:

	Three months ended 31 October	
	2017 HK\$'000	2016 HK\$'000
Auditor's remuneration	125	100
Cost of inventories sold	68,113	45,661
Depreciation	2,084	784
Foreign exchange loss, net	22	973
Net gain on disposals of property, plant and equipment	(250)	–
Listing expenses	–	3,289
Operating lease charges in respect of:		
– Director's quarters	504	450
– Office premises	198	198
	<u>702</u>	<u>648</u>
Staff costs (including Directors' emoluments)		
– Salaries, allowances and bonus	5,381	2,711
– Retirement benefit scheme contributions	182	88
– Quarters expenses	517	461
	<u>6,080</u>	<u>3,260</u>

6. DIVIDEND

The Board has resolved not to declare any dividend for the three months ended 31 October 2017 (2016: Nil).

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Three months ended 31 October	
	2017 HK\$'000	2016 HK\$'000
Earnings:		
Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	6,263	2,952
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for profit attributable to owners of the Company for the purpose of calculating basic earnings per share	1,000,000	750,000
Basic earnings per share	HK0.63 cent	HK0.39 cent

Note:

For the three months ended 31 October 2016, the calculation of the basic earnings per share is based on the profit for the period attributable to owners of the Company of HK\$2,952,000, and on the basis of 750,000,000 shares of the Company in issue, which represents the number of shares of the Company immediately after the Reorganisation and the Capitalisation Issue as if these shares issued under the Reorganisation had been issued on 1 August 2016 but excluding any shares issued pursuant to the Share Offer.

Diluted earnings per share was the same as the basic earnings per share for the three months ended 31 October 2017 and 2016 as there were no dilutive potential ordinary shares in issue.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is an earthmoving equipment sales and leasing service provider in Hong Kong with over 15 years of experience in the industry. The Group is principally engaged in (i) the sale of new and used earthmoving equipment and spare parts, (ii) the leasing of earthmoving equipment, and (iii) the provision of maintenance and ancillary services for earthmoving equipment users. The Group also offers some heavy equipment other than earthmoving equipment for sales and for leasing.

Looking forward, the Group is confident about the outlook and the prospects for sales and leasing of heavy equipment in light of the upswing in the number of infrastructure projects and the stringency of the new environmental regulatory regime implemented in Hong Kong. In order to sustain the business growth of the Group, the Group will continue to expand the leasing service and the maintenance and ancillary services as the long term growth prospect. To embrace opportunities, the Group is committed to the diversification of supplier base and product offering. For instance, during the three months ended 31 October 2017, the Group entered into a non-exclusive distributorship agreement with a heavy equipment manufacturer for the supply of the Japanese Airman brand of diesel engine generators. Going forward, the Group will continue to identify suitable suppliers and products in pursuance of more dealerships or distributorships, which would further boost its competitive edge in the long run.

FINANCIAL REVIEW

Revenue

The Group recorded a significant increase in revenue for the three months ended 31 October 2017 by approximately 43.6% to approximately HK\$90.9 million as compared with revenue of approximately HK\$63.3 million for the three months ended 31 October 2016. The increase was mainly attributable to the increases in sales of heavy equipment and spare parts of approximately HK\$18.8 million and the leasing income of approximately HK\$7.6 million, respectively.

Cost of sales

The Group's cost of sales amounted to approximately HK\$78.6 million for the three months ended 31 October 2017, representing an increase of approximately 55.0% (2016: approximately HK\$50.7 million). Cost of sales mainly comprised cost of machinery, equipment and parts, depreciation, freight and transportation costs, repairs and maintenance costs, and staff costs for operators, technicians and inspectors. The increase was mainly driven by the increase in revenue for the three months ended 31 October 2017 as well as the increase in staff costs of operators and technicians.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 2.4% from approximately HK\$12.6 million for the three months ended 31 October 2016 to approximately HK\$12.3 million for the three months ended 31 October 2017, with gross profit margin at approximately 13.5% (2016: approximately 19.9%). The decrease in gross profit and gross profit margin was mainly due to the decrease in gross profit of sales of heavy equipment and spare parts by approximately HK\$5.2 million with gross profit margin decreased from approximately 19.4% for the three months ended 31 October 2016 to approximately 8.4% for the three months ended 31 October 2017. Nevertheless, the gross profit of the leasing segment increased by approximately HK\$4.5 million for the three months ended 31 October 2017 as a result of the expansion of the leasing business.

Other income

The Group recognised other incomes of approximately HK\$53,000 and approximately HK\$0.39 million for the three months ended 31 October 2016 and 2017, respectively. The increase was mainly due to the gain on disposal of a motor vehicle.

Administrative and other operating expenses

The administrative expenses decreased by approximately HK\$3.6 million or 46.4% from approximately HK\$8.3 million for the three months ended 31 October 2016 to approximately HK\$4.7 million for the three months ended 31 October 2017. The decrease in administrative expenses was mainly due to the recognition of the non-recurring listing expenses of approximately HK\$3.3 million for the three months ended 31 October 2016.

Finance costs

The finance costs increased by approximately HK\$0.3 million or 150% from approximately HK\$0.2 million for the three months ended 31 October 2016 to approximately HK\$0.5 million for the three months ended 31 October 2017. The increase was in line with the increase in total debt (including finance lease payables) for the three months ended 31 October 2017 as compared to those of the same period last year.

Listing expenses

The Group did not incur any listing expenses for the three months ended 31 October 2017 (2016: approximately HK\$3.3 million).

Income tax expense

The income tax expenses remained stable at approximately HK\$1.3 million for the three months ended 31 October 2016 and for the three months ended 31 October 2017 as the profit before tax excluding the tax non-deductible listing expenses remained stable at approximately HK\$7.5 million and HK\$7.6 million for the three months ended 31 October 2016 and for the three months ended 31 October 2017, respectively.

Profit and total comprehensive income for the period

The Group's profit and total comprehensive income increased by approximately 2.1 times from approximately HK\$3.0 million for the three months ended 31 October 2016 to approximately HK\$6.3 million for the three months ended 31 October 2017. The increase was mainly due to the non-incurring of listing expenses as stated above.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 October 2017, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were recorded in the register required to be kept by the

Company under Section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were set out as follows:

Interests in the Company

Long position in the shares of the Company

Name of Directors	Nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Mr. Chow Luen Fat ("Mr. Chow")	Interest in a controlled corporation (<i>Note</i>)	750,000,000	75%
Ms. Cheng Ju Wen ("Mr. Cheng")	Interest in a controlled corporation (<i>Note</i>)	750,000,000	75%

Note: These shares are held by Generous Way, which is beneficially owned as to 50% by Mr. Chow, the chairman of the Board (the "**Chairman**"), the chief executive officer and an executive Director and 50% by Ms. Cheng, the non-executive Director. Mr. Chow and Ms. Cheng are spouses. Under the SFO, each of Mr. Chow and Ms. Cheng is deemed to be interested in the same number of shares held by Generous Way.

Interests in associated corporation of the Company

Long position in the shares of the associated corporation

Name of Directors	Name of associated corporation	Nature of interest	Number of shares held	Approximate percentage of shareholding
Mr. Chow Luen Fat	Generous Way	Beneficial owner	50	50%
Ms. Cheng Ju Wen	Generous Way	Beneficial owner	50	50%

Save as disclosed above, as at 31 October 2017, none of the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDER

As at 31 October 2017, so far as the Directors are aware, the following entity (other than the Directors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in the shares of the Company

Name of shareholder	Nature of interest	Number of shares held	Approximate
			percentage of the Company's issued share capital
Generous Way	Beneficial owner	750,000,000	75%

Save as disclosed above, as at 31 October 2017, the Directors were not aware of any persons/entities who/which had interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE PRACTICES

Code provision A.2.1 of the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules (the “CG Code”) stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Chow is the Chairman and the chief executive officer of the Company. In view of the fact that Mr. Chow is one of the founders of the Group and has been operating and managing the Group since its establishment in 2001, all the other Directors believe that the vesting of the roles of chairman and chief executive officer in Mr. Chow is beneficial to the business operations and management of the Group and will provide a strong and consistent leadership to the Group. Accordingly, the Company has not segregated the roles of its chairman and chief executive officer as required by the said code provision.

Save for the deviation from code provision A.2.1 as mentioned above, the Board is satisfied that the Company had complied with all the code provisions of the CG Code during the three months ended 31 October 2017.

SHARE OPTION SCHEME

The share option scheme of the Company (the “Share Option Scheme”) is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Share Option Scheme was adopted on 30 June 2017. No share options were granted or agreed to be granted under the Share Option Scheme from the date of its adoption to 31 October 2017 and up to the date of this report.

INTERESTS IN COMPETING BUSINESS

During the three months ended 31 October 2017, the Directors were not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

INTERESTS OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Southwest Securities (HK) Capital Limited (“Southwest Securities”) to be its the compliance adviser. As at 31 October 2017, as notified by Southwest Securities, save for the compliance adviser agreement entered into between the Company and Southwest Securities dated 4 July 2017, neither Southwest Securities nor any of its directors, employees or close associates had any interest in the securities of the Company.

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 listed securities of the Company during the three months ended 31 October 2017.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as contained in Rules 5.48 to 5.67 of the GEM Listing Rules as its required standard for Directors' dealing in the securities of the Company.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Law Tze Lun, Mr. Wong Man Hin Raymond and Mr. Kwok Siu Man. Mr. Law Tze Lun is the chairman of the Audit Committee. The Audit Committee has reviewed the Unaudited Consolidated Financial Statements and the quarterly report and is of the view that such statements and the quarterly report have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

By order of the Board
Tak Lee Machinery Holdings Limited
Chow Luen Fat
Chairman and Chief Executive Officer

Hong Kong, 6 December 2017

As at the date of this report, the executive Directors are Mr. Chow Luen Fat (chairman and chief executive officer), Ms. Liu Shuk Yee and Ms. Ng Wai Ying; the non-executive Director is Ms. Cheng Ju Wen; and the independent non-executive Directors are Mr. Kwok Siu Man, Mr. Law Tze Lun and Mr. Wong Man Hin Raymond.