

TLMC

TAK LEE MACHINERY HOLDINGS LIMITED

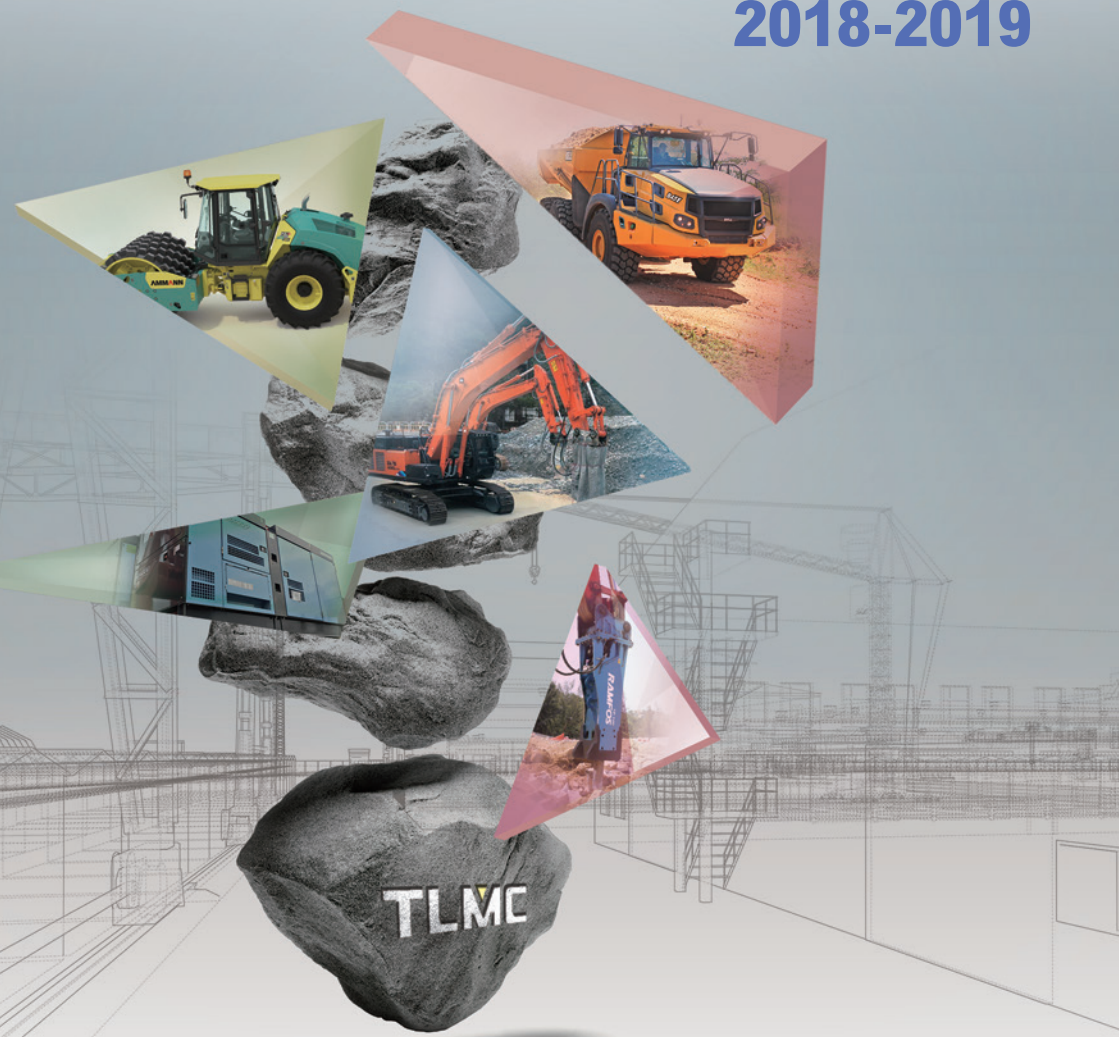
德利機械控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8142

FIRST QUARTERLY REPORT

2018-2019



RESULTS FOR THE THREE MONTHS ENDED 31 OCTOBER 2018

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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 FOR THE THREE MONTHS ENDED 31 OCTOBER 2018

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 October 2018 together with the unaudited comparative figures for the corresponding period in 2017.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 October 2018

		For the three months ended 31 October	
	Note	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	3	143,437	90,882
Cost of sales		(123,359)	(78,585)
Gross profit		20,078	12,297
Other income and net gains		1,178	391
Administrative and other operating expenses		(5,973)	(4,674)
Profit from operations		15,283	8,014
Finance costs		(790)	(485)
Profit before tax		14,493	7,529
Income tax expense	4	(2,316)	(1,266)
Profit and total comprehensive income for the period attributable to owners of the Company	5	12,177	6,263
Earnings per share			
– Basic and diluted (HK cents per share)	7	1.22	0.63

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the three months ended 31 October 2018*

	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 2018 (audited)	10,000	92,661	2,620	226,801	332,082
Profit and total comprehensive income for the period	<u> -</u>	<u> -</u>	<u> -</u>	<u>12,177</u>	<u>12,177</u>
At 31 October 2018 (unaudited)	<u>10,000</u>	<u>92,661</u>	<u>2,620</u>	<u>238,978</u>	<u>344,259</u>
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>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands on 11 December 2015. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is D.D.111, 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 the 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, a company incorporated in the British Virgin Islands ("BVI").

2. BASIS OF PRESENTATION AND PREPARATION

The unaudited consolidated financial statements of the Group for the three months ended 31 October 2018 (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 2018.

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 2018, 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 Unaudited Consolidated Financial Statements should be read in conjunction with the Group's audited consolidated financial statements and notes thereto for the year ended 31 July 2018.

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

The Unaudited Consolidated Financial Statements 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 as well as provision of maintenance and ancillary services and the Group's revenue by reportable segments is summarised as follows:

	Three months ended 31 October	
	2018 HK\$ '000	2017 HK\$ '000
Sales of heavy equipment and spare parts	131,882	79,779
Lease of heavy equipment	10,727	9,277
Provision of maintenance and ancillary services	828	1,826
	143,437	90,882
	143,437	90,882

4. INCOME TAX EXPENSE

	Three months ended 31 October	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax – Hong Kong		
Provision for the year	2,332	636
Deferred tax	(16)	630
	<u>2,316</u>	<u>1,266</u>

The Company was incorporated in the Cayman Islands and TLMC Company Limited, a wholly-owned subsidiary of the Company, was incorporated in the BVI. Both companies are tax exempted as no business was carried out in the Cayman Islands and the BVI under the tax laws of the Cayman Islands and the BVI.

For the three months ended 31 October 2017, Hong Kong profits tax has been provided at a rate of 16.5% on the estimated assessable profits for the three months ended 31 October 2017. Upon the introduction of the two-tiered profits tax rates regime effective on 28 March 2018, the profits tax rate for the first HK\$2 million of assessable profits has been lowered to 8.25% of qualifying corporations, and assessable profits above HK\$2 million will continue to be subject to the rate of 16.5%. The two-tiered profits tax rates regime was applicable to one subsidiary of the Company while Hong Kong profits tax has been provided at a rate of 16.5% on the estimated assessable profits of other group companies for the three months ended 31 October 2018.

5. PROFIT FOR THE PERIOD

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

	Three months ended 31 October	
	2018 HK\$'000	2017 HK\$'000
Auditor's remuneration	166	125
Cost of inventories sold	113,261	68,113
Depreciation	3,009	2,084
Foreign exchange (gain)/loss, net	(563)	22
Net gain on disposals of property, plant and equipment	(522)	(250)
Operating lease charges in respect of:		
– Director's quarters	504	504
– Office premises	401	198
	<u>905</u>	<u>702</u>
Reversal of allowance for inventories (included in cost of inventories sold) (<i>note</i>)	(304)	–
Staff costs (including Directors' emoluments)		
– Salaries, allowances and bonus	5,614	5,381
– Retirement benefit scheme contributions	187	182
– Quarters expenses	518	517
	<u>6,319</u>	<u>6,080</u>

Note: Allowance for inventories is written back when the relevant inventory is sold.

6. DIVIDEND

The Board has resolved not to declare any dividend for the three months ended 31 October 2018 (2017: 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	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings:		
Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	<u>12,177</u>	<u>6,263</u>
	<i>'000</i>	<i>'000</i>
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	<u>1,000,000</u>	<u>1,000,000</u>

Note:

The calculation of the basic earnings per share is based on the profit attributable to the owners of the Company for the three months ended 31 October 2018 of HK\$12,177,000 (2017: HK\$6,263,000) and the weighted average 1,000,000,000 ordinary shares (2017: 1,000,000,000 shares) in issue during the period.

Diluted earnings per share was the same as the basic earnings per share for the three months ended 31 October 2018 and 2017 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 17 years of presence 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 leasing.

The Group recorded a significant increase in profit attributable to owners of the Company for the three months ended 31 October 2018 by approximately 93.7% to approximately HK\$12.2 million from approximately HK\$6.3 million for the three months ended 31 October 2017.

The increase in the profit contribution was primarily attributed to the growth in the sales business of heavy equipment, which was driven by the strong market demand for those equipment for the three months ended 31 October 2018.

Earnings per share for the three months ended 31 October 2018 was HK cents 1.22 per share, representing an increase of 93.7% compared with HK cents 0.63 per share for the same period in 2017. The basis of calculating the earnings per share is detailed in Note 7 to the Unaudited Consolidated Financial Statements above.

Looking forward, the Group is confident about the outlook and the prospects for sales and leasing of heavy equipment. With a continuous increase in the total public expenditure on infrastructure as outlined in the 2018-19 Budget Speech, the implementation of the ten major infrastructure projects and the land enhancement strategy by reclamation and rock cavern development proposed by the Hong Kong government, and the commencement of several other large-scale infrastructure projects, such as the Three Runway System of the Hong Kong International Airport, Tseung Kwan O-Lam Tin Tunnel, Route 6 Development, North East New Territories New Development Areas and the Tung Chung New Town Development Extension, the Group is expecting a stable growth in the heavy equipment industry in Hong Kong in the coming future. Hence, the Group believes that the demand for its heavy equipment will remain strong in the coming years. To capture opportunities, the Group is committed to the diversification of its supplier base and product offering. For instance, in November 2018, the Group became the authorised dealer of Rotobec Inc. for the supply of *Rotobec* brand grapples and other earthmoving attachments in Hong Kong and Macau, and also the exclusive dealer for the supply of their Orange Peels product line in such territories. The Group will continue to identify suitable suppliers and products in pursuit 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 2018 by approximately 57.8% to approximately HK\$143.4 million as compared with revenue of approximately HK\$90.9 million for the three months ended 31 October 2017. The increase was mainly attributable to the increases in sales of heavy equipment and spare parts of approximately HK\$52.1 million and leasing income of approximately HK\$1.5 million.

Cost of sales

The Group's cost of sales amounted to approximately HK\$123.4 million for the three months ended 31 October 2018, representing an increase of approximately 57.0% (2017: approximately HK\$78.6 million). Cost of sales mainly comprised cost of machinery, equipment and spare 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 2018.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 63.4% from approximately HK\$12.3 million for the three months ended 31 October 2017 to approximately HK\$20.1 million for the three months ended 31 October 2018, with gross profit margin at approximately 14.0% (2017: approximately 13.5%). The increase in gross profit was mainly attributable to the increase in gross profit of the sales of heavy equipment and spare parts by approximately HK\$7.8 million associated with the increase in gross profit margin to approximately 10.9% for the three months ended 31 October 2018. The gross profit of the leasing and provision of maintenance and ancillary services remained stable for the three months ended 31 October 2018.

Other income

The Group recognised other income of approximately HK\$0.4 million and approximately HK\$1.2 million for the three months ended 31 October 2017 and 2018, respectively. The increase was mainly due to the increase in net foreign exchange gain of approximately HK\$0.6 million.

Administrative and other operating expenses

The administrative expenses increased by approximately HK\$1.3 million or 27.7% from approximately HK\$4.7 million for the three months ended 31 October 2017 to approximately HK\$6.0 million for the three months ended 31 October 2018. The increase in administrative expenses was mainly due to the general and administrative expenses incurred for the expansion of office and workshop and the increase in sales and administrative staff.

Finance costs

The finance costs increased by approximately HK\$0.3 million or 60.0% from approximately HK\$0.5 million for the three months ended 31 October 2017 to approximately HK\$0.8 million for the three months ended 31 October 2018. The increase was in line with the increase in total debt (including finance lease payables) for the three months ended 31 October 2018 as compared to those of the same period last year.

Income tax expense

The income tax expense increased by approximately HK\$1.0 million or 76.9% for the three months ended 31 October 2018 compared with the same period last year and the increase was in line with the increase in profit before tax.

Profit and total comprehensive income for the period

As a result of the foregoing, the Group's profit and total comprehensive income increased by approximately 93.7% from approximately HK\$6.3 million for the three months ended 31 October 2017 to approximately HK\$12.2 million for the three months ended 31 October 2018. The net profit margin of the Group increased to 8.5% as compared to 6.9% for the three months ended 31 October 2017.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 October 2018, 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 ordinary shares held	Percentage of the Company's issued voting shares
Mr. Chow Luen Fat ("Mr. Chow")	Interest in a controlled corporation (<i>Note</i>)	750,000,000	75%
Ms. Cheng Ju Wen ("Ms. Cheng")	Interest in a controlled corporation (<i>Note</i>)	750,000,000	75%

Note: These shares are held by Generous Way Limited ("**Generous Way**"), which is beneficially owned as to 50% by Mr. Chow, the chairman of the Board, the chief executive officer of the Company 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 ordinary shares held	Percentage of issued voting shares
Mr. Chow Luen Fat	Generous Way Limited	Beneficial owner	50	50%
Ms. Cheng Ju Wen	Generous Way Limited	Beneficial owner	50	50%

Save as disclosed above, as at 31 October 2018, 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 2018, 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 ordinary shares held	Percentage of the Company's issued voting shares
Generous Way Limited	Beneficial owner	750,000,000	75%

Save as disclosed above, as at 31 October 2018, the Directors were not aware of any persons who or entities 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 Luen Fat ("Mr. Chow") is the chairman of the Board 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 applicable code provisions of the CG Code during the three months ended 31 October 2018.

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 for the period from the date of its adoption to 31 October 2018 and up to the date of this report.

INTERESTS IN COMPETING BUSINESS

During the three months ended 31 October 2018, 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**”) as its compliance adviser. As at 31 October 2018, 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 relation to 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 2018.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings (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. Following a specific enquiry made by the Company on each of the Directors, each Director has confirmed that he/she had complied with the Required Standard of Dealings during the three months ended 31 October 2018.

REVIEW BY AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Law Tze Lun, Mr. Kwok Siu Man and Dr. Wong Man Hin Raymond. Mr. Law Tze Lun is the chairman of the Audit Committee. The Audit Committee has reviewed the Unaudited Consolidated Financial Statements and is of the view that such statements 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, 5 December 2018

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 Dr. Wong Man Hin Raymond.

This report will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication. This report will also be published on the Company’s website at www.tlmc-hk.com.