# 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


# ANNUAL REPORT 2019

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. CHOW Luen Fat *(Chairman and Chief Executive Officer)*
Ms. LIU Shuk Yee
Ms. NG Wai Ying

### Non-executive Director

Ms. CHENG Ju Wen

### Independent non-executive Directors

Sir KWOK Siu Man KR
Mr. LAW Tze Lun
Dr. WONG Man Hin Raymond

## COMPANY SECRETARY

Ms. NG Wai Ying

## COMPLIANCE OFFICER

Ms. NG Wai Ying

## COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited

## AUTHORISED REPRESENTATIVES

Mr. CHOW Luen Fat
Ms. NG Wai Ying

## BOARD COMMITTEES

### Audit Committee

Mr. LAW Tze Lun *(Chairman)*
Sir KWOK Siu Man KR
Dr. WONG Man Hin Raymond

### Remuneration Committee

Dr. WONG Man Hin Raymond *(Chairman)*
Sir KWOK Siu Man KR
Mr. LAW Tze Lun

### Nomination Committee

Sir KWOK Siu Man KR *(Chairman)*
Mr. LAW Tze Lun
Dr. WONG Man Hin Raymond

## REGISTERED OFFICE

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

D.D. 111, Lot No. 117,
Sheung Che Village,
Pat Heung,
Yuen Long,
New Territories,
Hong Kong

## LEGAL ADVISER

*As to Hong Kong Law*
Loeb & Loeb LLP

## INDEPENDENT AUDITOR

RSM Hong Kong
29/F, Lee Garden Two,
28 Yun Ping Road,
Causeway Bay, Hong Kong

## PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## STOCK CODE

8142

## COMPANY'S WEBSITE

www.tlmc-hk.com

# TLMC

## HITACHI

In January 2012, the Group became the authorised dealer for certain heavy equipment of *Hitachi* brand in Hong Kong and Macao.

## BELL

In August 2019, the Group became the authorised distributor in respect of articulated dump trucks and articulated trucks (water tankers) of *Bell* brand in Hong Kong.

## AMMANN

In September 2016, the Group became the exclusive dealer for heavy equipment (compaction machinery) of *Ammann* brand, a Swiss brand, in Hong Kong and Macao.

# TLMC

## RAMFOS

In November 2011, the Group was first granted the exclusive distributorship for certain earthmoving attachment and spare parts of *Ramfos* brand, a Korean brand, in Hong Kong and Macao.



## LaBounty

In February 2006, the Group was first granted the exclusive distributorship for certain earthmoving attachment and spare parts of *LaBounty* brand, a U.S. brand, in Hong Kong and Macao.

## AIRMAN®

In October 2017, the Group became the non-exclusive dealer for diesel engine generators of *AIRMAN* brand, a Japanese brand, in Hong Kong and Macao.

## ROTOBEC

TOUGH HANDLING EQUIPMENT

In November 2018, the Group became the authorised dealer of *Rotobec* brand grapples and other earthmoving attachments in Hong Kong and Macao, and also the exclusive dealer for the supply of their Orange Peels product line in such territories.

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Tak Lee Machinery Holdings Limited (the "Company"), it is my pleasure to present the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 July 2019.

The Group recorded a decrease in the consolidated net profit attributable to shareholders of the Company for the year ended 31 July 2019 by approximately 29.7% to approximately HK$38.6 million from approximately HK$54.9 million for the year ended 31 July 2018. Earnings per share for the year ended 31 July 2019 was HK3.86 cents per share, representing a decrease of 29.7% compared with HK5.49 cents per share for the same period in 2018. The decrease was mainly attributable to the slowdown of the demand of used heavy vehicles leading to decrease in sales business of heavy equipment compared to that of the corresponding period in 2018 and the increase in administrative expenses incurred owing to the expansion of the Group's office and workshop.

For the year ended 31 July 2019, the Board declared and paid an interim dividend of HK0.5 cent per ordinary share (2018: nil).

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. The Board believes that the Group is well-positioned to turn challenges into opportunities just as it has always done so. For instance, as the business operations of the Group rely heavily on the stable and timely supply of various heavy equipment, the Group has always been committed to the diversification of supplier base, which prompted the Group to secure new dealership for the year ended 31 July 2019. During the year ended 31 July 2019, the Group has entered into agreement for dealership of one new brand of heavy equipment, namely *Rotobec* allowing the Group to achieve diversification of its supplier base.

In view of the looming uncertainties from the Sino-US trade war, there may be some fluctuation in the demand in heavy equipment. However, given the upswing in the number of infrastructure projects such as the Three Runway System of the Hong Kong International Airport, Tseung Kwan O-Lam Tin Tunnel and the Tung Chung New Town Development Extension, the Group remains confident about the outlook and the prospects for the sales and leasing of heavy equipment in Hong Kong.

On behalf of the Board, I would like to express my appreciation to our shareholders, business partners and customers for their valuable support, as well as to the management team and all staff members for their professional and passionate work. In collaboration with them, the Group will make continuous effort to explore new business opportunities, achieve good results and contribute to the community.

CHOW Luen Fat
*Chairman*

Hong Kong, 10 October 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

The Group is an earthmoving equipment sales and leasing service provider in Hong Kong with over 18 years of presence in the industry. The Group is principally engaged in (i) the sales 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.

## BUSINESS REVIEW AND OUTLOOK

The Group recorded a decrease in profit attributable to owners of the Company for the year ended 31 July 2019 by approximately 29.7% to approximately HK$38.6 million from approximately HK$54.9 million for the year ended 31 July 2018, which was mainly attributable to (i) the decrease in sales of used heavy equipment, as the demand for used heavy vehicles has slowed down compared to that for the year ended 31 July 2018, and (ii) the increased administrative expenses incurred owing to the expansion of the Group's office and workshop. Although the sales of used heavy vehicles decreased by approximately 41.6%, the sales of new heavy vehicles increased by approximately 81.5% due to the strong market demand arising from the commencement of various infrastructure, reclamation and building projects in Hong Kong.

The Group is confident about the outlook and the prospects for sales and leasing of heavy equipment. With the Hong Kong government setting aside approximately HK$79.1 billion on public expenditure on infrastructure as outlined in the 2019-20 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 supplier base and product offering. For instance, during the year ended 31 July 2019, the Group became an 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. Going forward, 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 generated its revenue from (i) the sales of new and used heavy equipment and spare parts; (ii) the leasing of heavy equipment, and (iii) the provision of machinery maintenance and ancillary services.

The Group generated a majority of its revenue from its sales business, in which a substantial portion of its revenue was derived from the sales of heavy vehicles.

For the year ended 31 July 2019, the total revenue of the Group amounted to approximately HK$572.0 million, representing a decrease of approximately HK$27.8 million or 4.6% from approximately HK$599.8 million for the year ended 31 July 2018. Such decrease was mainly attributable to the decrease in the sales of heavy equipment and spare parts of approximately HK$44.9 million and the decrease in machinery maintenance and ancillary services income of approximately HK$1.3 million, which was partially offset by the increase in leasing income of approximately HK$18.4 million.

*Revenue from the sales of heavy equipment and spare parts*

The revenue from the sales of heavy equipment and spare parts decreased by approximately HK$44.9 million, or 8.2% from approximately HK$546.9 million for the year ended 31 July 2018 to approximately HK$502.0 million for the year ended 31 July 2019. Such decrease was mainly attributable to the decrease in sales of heavy vehicles of 6.4%, from approximately HK$471.1 million for the year ended 31 July 2018 to approximately HK$441.1 million for the year ended 31 July 2019. The sales of other heavy equipment also decreased by approximately HK$6.5 million, or 16.3%, for the year ended 31 July 2019 as compared to the year ended 31 July 2018. Although the sales of used heavy vehicles decreased by approximately 41.6% due to a slowdown of market demand for such heavy vehicles, the sales of new heavy vehicles increased by approximately 81.5% due to the strong market demand arising from the commencement of various infrastructure, reclamation and building projects in Hong Kong.

*Revenue from the leasing of heavy equipment*

The revenue from leasing of heavy equipment increased by approximately HK$18.4 million, or 38.8% from approximately HK$47.4 million for the year ended 31 July 2018 to approximately HK$65.8 million for the year ended 31 July 2019. The increase in revenue was mainly attributable to the expansion of the leasing business of the Group and the strong market demand for the heavy vehicles benefited from the infrastructure, reclamation and tunnel projects in Hong Kong.

### Cost of Revenue

The cost of revenue amounted to approximately HK$491.7 million for the year ended 31 July 2019, representing a decrease of approximately HK$16.9 million or 3.3% from approximately HK$508.6 million for the year ended 31 July 2018. Cost of revenue mainly comprised cost of machinery, equipment and spare parts, depreciation, freight and transportation expenses, repairs and maintenance costs, staff costs for operators, technicians and inspectors, and sub-leasing fee, which together accounted for approximately 99.7% and 99.9% for each of the years ended 31 July 2018 and 31 July 2019 respectively.

The decrease in the cost of revenue was mainly attributable to the decrease of approximately HK$29.4 million or 6.4% in the cost of machinery, equipment and spare parts, which is in line with the decrease in the revenue from sales of heavy equipment and spare parts for the year ended 31 July 2019. Depreciation increased by approximately 99.5% for the year ended 31 July 2019, which is mainly due to the increase in the number of heavy equipment leased out during the year ended 31 July 2019. Staff costs increased by approximately 13.6% for the year ended 31 July 2019, which is mainly attributable to the increase in staff costs for operators by approximately 10.6%. In addition, the sub-leasing fee increased by approximately 444.0% for the year ended 31 July 2019. Such increase is mainly attributable to unexpected demand from customers for the leasing of heavy vehicles which the Group had no stock on hand at the time of leasing. For the sales segment, staff costs of technicians and inspectors increased by approximately 18.6%. It is mainly due to the increase in average headcount of the technical and maintenance team during the year ended 31 July 2019.

Freight and transportation expenses decreased by approximately 18.1% for the year ended 31 July 2019. The decrease is mainly due to the decrease in import of machineries from overseas suppliers. Repairs and maintenance costs remained stable for the year ended 31 July 2019.

## Gross Profit and Gross Profit Margin

The gross profit decreased by approximately 11.8% from approximately HK$91.2 million for the year ended 31 July 2018 to approximately HK$80.4 million for the year ended 31 July 2019. The gross profit margin decreased from approximately 15.2% for the year ended 31 July 2018 to approximately 14.1% for the year ended 31 July 2019.

The decrease in gross profit was mainly due to the decrease in gross profit for sales of heavy equipment and spare parts by approximately HK$13.0 million, which were partially offset by the increase in gross profit from leasing of heavy equipment by approximately HK$3.3 million. The gross profit margin of the sales segment decreased from approximately 11.6% for the year ended 31 July 2018 to approximately 10.1% for the year ended 31 July 2019 mainly attributable to the decrease in gross profit margin of used heavy vehicles for the year ended 31 July 2019. The gross profit margin from the leasing segment decreased from approximately 54.9% for the year ended 31 July 2018 to approximately 44.6% for the year ended 31 July 2019. The decrease is mainly due to the new marketing strategy with the aim of attracting customers to lease heavy equipment for longer leasing period.

## Other Income

The other income decreased by approximately 35.0% from approximately HK$2.0 million for the year ended 31 July 2018 to approximately HK$1.3 million for the year ended 31 July 2019. The decrease was mainly due to the absence of reversal of allowance for trade receivables for the year ended 31 July 2019.

## Administrative and Other Operating Expenses

The administrative and other operating expenses increased by approximately 24.7% from approximately HK$24.3 million for the year ended 31 July 2018 to approximately HK$30.3 million for the year ended 31 July 2019. The increase in administrative expenses was mainly attributable to the increase in the depreciation of approximately HK$0.5 million, exchange loss of approximately HK$0.6 million, operating lease charges of approximately HK$1.0 million, staff costs (including Directors' emoluments but excluding quarters expenses) of approximately HK$1.4 million, as a result of the expansion of office and workshop and the increase in number of sales and administrative staff.

### Finance Costs

The finance costs represented interest expenses on bank borrowings and interest expenses on obligation under finance lease of a motor vehicle and increased by approximately 56.0% from approximately HK$2.5 million for the year ended 31 July 2018 to approximately HK$3.9 million for the year ended 31 July 2019. The increase was in line with the increase in the average amount of bank borrowings for the year ended 31 July 2019 as compared to those of last year.

### Income Tax Expense

The income tax expenses decreased by approximately HK$3.1 million or approximately 27.4% for the year ended 31 July 2019 compared with those of last year and the decrease was in line with the decrease in profit before tax.

### Profit and Total Comprehensive Income Attributable to Owners of the Company

As a result of the foregoing, the profit attributable to owners of the Company decreased by approximately HK$16.3 million, from approximately HK$54.9 million for the year ended 31 July 2018 to approximately HK$38.6 million for the year ended 31 July 2019. The net profit margin decreased to approximately 6.7% as compared to approximately 9.2% for the year ended 31 July 2018. Excluding the non-recurring listing expenses, the Group would have recorded a profit attributable to owners of the Company of approximately HK$40.5 million for the year ended 31 July 2019 (2018: approximately HK$56.1 million).

## DIVIDEND

At a Board meeting of the Company held on 9 March 2019, the Board declared an interim dividend of HK0.5 cent per ordinary share for the six months ended 31 January 2019, amounting to HK$5.0 million (2018: nil). Such declared interim dividend of HK$5.0 million was paid to the shareholders of the Company on 17 April 2019.

The Board has resolved not to recommend any final dividend for the year ended 31 July 2019 (2018: nil).

## LIQUIDITY AND FINANCIAL RESOURCES

The current ratio (as calculated by dividing the total current assets by the total current liabilities) of the Group as at 31 July 2019 was approximately 2.3 times as compared to that of approximately 2.9 times as at 31 July 2018. The decrease was mainly due to the increase in bank borrowings of approximately HK$24.9 million. As at 31 July 2019, the Group had total bank and cash balances of approximately HK$66.9 million (31 July 2018: approximately HK$45.3 million). In addition, the Group had import loans of approximately HK$134.1 million (31 July 2018: approximately HK$109.2 million) and finance lease payables of nil (31 July 2018: approximately HK$0.1 million) as at 31 July 2019.

The gearing ratio, calculated based on total debts (including bank borrowings and finance lease payables) divided by total equity at the end of the year ended 31 July 2019 and multiplied by 100%, was approximately 36.7% as at 31 July 2019 (31 July 2018: approximately 32.9%). The Group had unutilised banking facilities of approximately HK$17.4 million as at 31 July 2019 (31 July 2018: approximately HK$5.8 million). The Directors consider that the Group's financial position is sound and strong. With available bank and cash balances and banking facilities, the Group has sufficient liquidity to satisfy its funding requirements.

The Group expects to fund its future operations and expansion plans primarily with cash generated from its operation and bank borrowings.

## COMMITMENTS

The operating lease commitments of the Group as lessee represented rentals payable by the Group for its office premises and a Director's quarters; and those as lessor represented rentals receivable by the Group for its earthmoving machinery and equipment. The Group's operating lease commitments as lessee and lessor amounted to approximately HK$4.5 million (31 July 2018: approximately HK$3.1 million) and approximately HK$14.2 million (31 July 2018: approximately HK$2.6 million) as at 31 July 2019, respectively.

As at 31 July 2019, the Group had capital commitments contracted for but not yet incurred of approximately HK$1.6 million (31 July 2018: nil).

## CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 July 2019, the Group did not have any charge on its assets (31 July 2018: nil).

As at 31 July 2019, the Group did not have any material contingent liabilities (31 July 2018: nil).

## CAPITAL STRUCTURE

The issued shares of the Company were listed on GEM of the Stock Exchange (the "Listing") on 27 July 2017 (the "Listing Date"). There has been no change in the Company's capital structure since the Listing. The capital structure of the Group consists of equity attributable to the owners of the Company, which comprises issued share capital and reserves. The Directors review the Group's capital structure regularly. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. The Group will adjust its overall capital structure through the payment of dividends, issuance of new shares and inception or repayment of bank borrowings.

As at 31 July 2019, the Company's issued share capital amounted to HK$10,000,000 and there were a total of 1,000,000,000 issued ordinary shares with a nominal value of HK$0.01 each.

## SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed in note 7 to the consolidated financial statements.

## MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 July 2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

## EXPOSURE TO FOREIGN EXCHANGE RATE FLUCTUATION

The Group has certain exposure to foreign currency risk as most of the business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HK$"), Japanese Yen ("JPY"), Renminbi ("RMB"), Euro ("EUR") and US dollars ("USD"). There is a currency difference between the Group's revenue receipts (which are denominated in HK$) and some of the payments for purchases (which are denominated in JPY, RMB, EUR and USD). The Group currently does not have a foreign currency hedging policy. The Group will continue to monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

## SIGNIFICANT INVESTMENTS AND PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have any significant investments or any other plans for material investments or capital assets as at 31 July 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the prospectus of the Company dated 17 July 2017 (the "Prospectus") with the Group's actual business progress for the period from the Listing Date to 31 July 2019 is set out below:

| Business objectives | Actual progress |
|---|---|
| Strengthen supplier base and expand product portfolio in anticipation of the changing market conditions | During the year ended 31 July 2018, 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.<br><br>During the year ended 31 July 2019, the Group became an 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.<br><br>The Group had used approximately HK$7.4 million to purchase 9 units of heavy vehicles as ready stock. |
| Enhance and expand its leasing and maintenance and ancillary services | The Group had used approximately HK$57.0 million to purchase 49 units of heavy equipment to expand the leasing fleet. |
| Expand and improve its workshop and facilities | The Group had purchased 3 sites located in Yuen Long, New Territories, Hong Kong which can accommodate its planned workshop in the long run for maintaining and repairing its equipment and had conducted some improvement works at existing and new sites. |
| Accelerate the development of its own-brand earthmoving equipment | |
| – For enhancement and improvement of the heavy equipment | – The Group continued to exchange the customers' feedback and requirements regarding the *TLMC* brand earthmoving attachment with its manufacturer. |
| – For the marketing and promotion of its brand through advertisement and public relations activities | – The Group had promoted its brand through advertisements in construction news magazine. |

| Business objectives | Actual progress |
|---|---|
| Recruiting talents to capture more business opportunities | The Group had used approximately HK$3.1 million for recruitment and strengthening of staff training. |

## USE OF PROCEEDS

The net proceeds from the Listing, after deducting the listing-related expenses, were approximately HK$99.0 million (based on the final offer price of HK$0.44 per offer share), which were different from the estimated net proceeds of HK$79.6 million (based on an offer price of HK$0.36 per offer share (being the mid-point of the offer price range between HK$0.28 to HK$0.44 per share)) as disclosed in the Prospectus. The difference of the HK$19.4 million has been adjusted in the same manner and in the same proportion to the use of proceeds as shown in the Prospectus.

The Company has applied the net proceeds raised from the Listing by way of public offer and placing as to (i) approximately 65.0% of the net proceeds or approximately HK$64.4 million for the procurement of heavy equipment; (ii) approximately 14.3% of the net proceeds or approximately HK$14.2 million for the enhancement and expansion of its existing facilities; (iii) approximately 5.3% of the net proceeds or approximately HK$5.2 million for the development of its *TLMC* brand heavy equipment; (iv) approximately 5.4% of the net proceeds or approximately HK$5.3 million for the recruitment and training of its staff; and (v) approximately 10.0% of the net proceeds or approximately HK$9.9 million for general working capital.

| | Proposed amount to be used up to 31 July 2019 HK$ (million) | Approximate actual amount utilised as at 31 July 2019 HK$ (million) | Unutilised amount out of the proposed amount as at 31 July 2019 HK$ (million) |
|---|---|---|---|
| Procurement of heavy equipment | 64.4 | 64.4 | 0.0 |
| Enhancement and expansion of existing facilities | 14.2 | 14.2 | 0.0 |
| Development of *TLMC* brand heavy equipment | 5.2 | 5.2 | 0.0 |
| Recruitment and training staff | 5.3 | 5.3 | 0.0 |

As at the date of the annual report, there had been no change to the plan as to the use of proceeds.

# DIRECTORS AND SENIOR MANAGEMENT

## OVERVIEW

The Board consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The Board is responsible and has general powers for the management and conduct of the business of the Group. The senior management consists of sales and service support manager and parts and service support manager. The senior management is responsible for the day-to-day management of the business.

## DIRECTORS

### Executive Directors

**Mr. CHOW Luen Fat (周聯發)** ("Mr. Chow"), aged 46, is the chairman of the Board and the chief executive officer of the Company. Mr. Chow was appointed as a Director on 11 December 2015 and was re-designated as an executive Director on 4 August 2016. Mr. Chow also holds directorships in all the subsidiaries of the Company. Mr. Chow is primarily responsible for overall management, strategic planning, procurement and development of the Group. Mr. Chow is the spouse of Ms. Cheng Ju Wen ("Ms. Cheng"), the non-executive Director.

Mr. Chow has more than 21 years of experience in the heavy equipment industry. Prior to founding the Group, Mr. Chow worked for Shing Lee Construction Machinery Co. Limited from March 1998 and his last position was purchasing and sales manager when he left in February 1999. From 1999 to 2001, Mr. Chow operated Tak Lee Machinery Company, an unlimited company in Hong Kong, which was engaged in the sales of used heavy equipment in Hong Kong. In March 2001, Mr. Chow co-founded Tak Lee Machinery Company Limited ("Tak Lee Machinery") with Ms. Cheng and acted as a director of Tak Lee Machinery. Mr. Chow has also been serving as a director of the subsidiaries of the Company, namely, Econsmart Limited, Success Sky Corporation Limited and Creative Day Limited since September 2001, October 2010 and August 2018, respectively. Mr. Chow is also a director and a shareholder of Generous Way Limited, a substantial shareholder of the Company.

Mr. Chow served on the Hong Kong Construction Machinery Association (which was subsequently incorporated as the Hong Kong Construction Machinery Association Company Limited on 24 December 2009) as the president from July 2005 to June 2006 and had served as the honorary president from July 2007 for a term of ten years ended in June 2017 and continues to serve as the honorary president from July 2017 for a term of four years.

Mr. Chow obtained a bachelor's degree in engineering from Tohwa University in Japan in March 1998.

**Ms. LIU Shuk Yee (廖淑儀)** ("Ms. Liu"), aged 35, was appointed as an executive Director on 4 August 2016 and is primarily responsible for the sales and marketing, operation, procurement and development of the Group. Ms. Liu has approximately 17 years of experience in the heavy equipment industry. She joined the Group in August 2002 as a sales officer, and was promoted progressively over the years to manager in July 2009, and senior manager in December 2010, mainly responsible for the management of sales and marketing function and overseeing the day-to-day operation.

Ms. Liu obtained a bachelor's degree of arts in business administration and management from De Montfort University in the United Kingdom through a distance learning course in September 2013.

**Ms. NG Wai Ying (吳慧瑩)** ("Ms. Ng"), *CPA & FCCA,* aged 46, was appointed as an executive Director and the company secretary of the Company on 4 August 2016. She has been appointed as the chief financial officer since May 2016. Ms. Ng is primarily responsible for the overall financial affairs and management and company secretarial matters of the Group. Ms. Ng is also the compliance officer of the Company.

Ms. Ng has over 24 years of experience in auditing and financial management. From July 1995 to March 1997, Ms. Ng worked as an audit assistant in Morison Heng CPA Limited and was responsible for external auditing. Ms. Ng joined Deloitte Touche Tohmatsu in August 1997 and her last position was senior accountant when she left in May 2000. From July 2000 to July 2001, Ms. Ng joined Sino-i.com Limited as an accountant. From July 2001, Ms. Ng worked as the accounting manager at Asia Aluminum Holdings Limited and her last position was financial controller when she left in March 2009. From August 2009 to November 2015, Ms. Ng was the financial controller in Trillion New HK Limited and she was responsible for financial reporting, capital markets and financing activities and department management.

Ms. Ng graduated from The Hong Kong Polytechnic University with a bachelor's degree of arts in accountancy in October 1995. Ms. Ng has been admitted as a fellow member of The Association of Chartered Certified Accountants since October 2003. Ms. Ng has also been admitted as a member of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) since October 1998.

## Non-Executive Director

**Ms. CHENG Ju Wen (鄭如雯)** ("Ms. Cheng"), aged 47, was appointed as a Director on 11 December 2015 and was re-designated as the non-executive Director on 4 August 2016. Ms. Cheng also holds directorships in all the subsidiaries of the Company. Ms. Cheng is primarily responsible for strategic planning and business development of the Group. Ms. Cheng is the spouse of Mr. Chow Luen Fat ("Mr. Chow"), an executive Director.

From 1999 to 2001, Ms. Cheng operated Tak Lee Machinery Company, an unlimited company in Hong Kong, which was engaged in the sales of used heavy equipment in Hong Kong. In March 2001, Ms. Cheng co-founded Tak Lee Machinery Company Limited ("Tak Lee Machinery") with Mr. Chow and acted as a director of Tak Lee Machinery. Ms. Cheng has also been serving as a director of the subsidiaries of the Company, namely, Econsmart Limited, Success Sky Corporation Limited and Creative Day Limited since September 2001, October 2010 and August 2018, respectively. Ms. Cheng is also a director and a shareholder of Generous Way Limited, a substantial shareholder of the Company.

Ms. Cheng obtained a bachelor's degree in engineering from Tohwa University in Japan in March 1998.

# DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-Executive Directors

**Sir KWOK Siu Man KR (郭兆文)** ("Sir Seaman Kwok"), aged 60, was appointed as an independent non-executive Director on 30 June 2017. He is primarily responsible for providing independent advice to the Board. He is also the chairman of the Nomination Committee of the Company and a member of both the Audit Committee and the Remuneration Committee of the Company. Sir Seaman Kwok has over 31 years of experience in legal, regulatory compliance and corporate secretarial matters and management gained from working as the company secretary of various groups (including the Hang Seng Index Constituent and Hang Seng Mid-cap 50 stock companies) and the managing director of a top-notch financial printer in Hong Kong with an international affiliation. Sir Seaman Kwok is presently an executive director and the head of the corporate secretarial department of Boardroom Corporate Services (HK) Limited, a director of Boardroom Share Registrars (HK) Limited and an executive committee member of Federation of Share Registrars Limited and has been a director of a charity fund since its incorporation in May 1992.

Sir Seaman Kwok holds a professional diploma in company secretaryship and administration and a bachelor's degree of arts in accountancy from The Hong Kong Polytechnic University. He has earned a post-graduate diploma in laws from the Manchester Metropolitan University in England and passed the Common Professional Examinations of England and Wales. Sir Seaman Kwok was a long-serving council member of The Hong Kong Institute of Chartered Secretaries ("HKICS") and the chief examiner for Hong Kong Company Secretarial Practice module of the international qualifying scheme of the HKICS. Sir Seaman Kwok is a fellow member of each of The Institute of Chartered Secretaries and Administrators in England ("ICSA"), The Institute of Financial Accountants in England, the HKICS, The Association of Hong Kong Accountants, The Hong Kong Institute of Directors and the Institute of Public Accountants in Australia. Sir Seaman Kwok is also a member of the Hong Kong Securities and Investment Institute and a Chartered Governance Professional of both the ICSA and the HKICS. In addition, he possesses other professional qualifications in arbitration, taxation, human resource management and financial planning and was named in the "*International WHO's WHO of Professionals*" in 1999. Further, Sir Seaman Kwok was conferred as a Knight of Rizal of the Philippines in June 2019.

**Mr. LAW Tze Lun (羅子璘)** ("Mr. Law"), aged 47, was appointed as an independent non-executive Director on 30 June 2017. He is primarily responsible for providing independent advice to the Board. He is also the chairman of the Audit Committee of the Company and a member of both the Nomination Committee and the Remuneration Committee of the Company. Mr. Law has over 27 years of experience in auditing, accounting and finance. From January 1992 to May 1997, he worked as an audit supervisor at Cheng, Kwok & Chang C.P.A.. Since July 1997, Mr. Law worked at Chiang & Lai C.P.A. as an officer and he was promoted to partner in April 2003. In February 2008, Mr. Law founded Law Tze Lun C.P.A., which provided accounting and auditing services. Since December 2010, Mr. Law has been a director of ANSA CPA Limited, which was principally engaged in the provision of auditing and accounting services.

Mr. Law has been serving as an independent non-executive director of Come Sure Group (Holdings) Limited (stock code: 794) since February 2009 and Gemini Investments (Holdings) Limited since November 2010 (formerly known as Kee Shing (Holdings) Limited) (stock code: 174), which are listed on the Main Board of the Stock Exchange. Mr. Law was an independent non-executive director of National Investments Fund Limited (stock code: 1227), which is a company listed on the Main Board of the Stock Exchange, during the period from 12 December 2013 to 20 September 2018.

In March 1999, Mr. Law obtained a bachelor's degree in commerce (accounting) from Curtin University of Technology in Australia. Since April 1999, Mr. Law has been admitted as a certified practising accountant of the Australian Society of Certified Practising Accountants (currently known as CPA Australia). Mr. Law has also been admitted as an associate and certified public accountant of the Hong Kong Society of Accountants (currently known as Hong Kong Institute of Certified Public Accountants) in October 2000 and March 2003, respectively, and as a fellow member of the Hong Kong Institute of Certified Public Accountants since March 2014.

**Dr. WONG Man Hin Raymond (黃文顯)** ("Dr. Wong"), aged 53, was appointed as an independent non-executive Director on 30 June 2017. He is primarily responsible for providing independent advice to the Board. He is also the chairman of the Remuneration Committee of the Company and a member of both the Audit Committee and the Nomination Committee of the Company.

Dr. Wong has been serving as a director of companies listed on the Main Board and GEM of the Stock Exchange. Dr. Wong has been acting as an executive director since April 2002 and the deputy chairman since April 2007 of Raymond Industrial Limited (stock code: 229). Dr. Wong has also been serving as an independent non-executive director of Nan Nan Resources Enterprise Limited (stock code: 1229) since March 2008, Modern Beauty Salon Holdings Limited (stock code: 919) since December 2009 and Zhejiang United Investment Holdings Group Limited (stock code: 8366) since July 2017.

Dr. Wong obtained a bachelor's degree in chemical engineering from Lehigh University in the United States in October 1988, a master's degree in economics from University of Hawaii at Manoa in December 1994 and a doctorate degree in business administration from The Hong Kong Polytechnic University in September 2018. Dr. Wong has been admitted a Certified Management Accountant and a Chartered Global Management Accountant since September 1998 and August 2014, respectively and a member of American Institute of Certified Public Accountants since May 1999. Dr. Wong was also awarded a certificate in financial management by the Institute of Certified Management Accountants in April 1999.

## SENIOR MANAGEMENT

**Mr. SHANG-KUAN Cheuk Man (上官卓文)** ("Mr. Shang Kuan"), aged 38, is the sales and service support manager. Mr. Shang Kuan oversees the day-to-day sales and leasing activities including procurement and after sales services. He joined the Group in October 2014.

Mr. Shang Kuan has experience of over 4 years in sales and service support management in the heavy equipment industry.

**Mr. LEE Shun On (李順安)** ("Mr. Lee"), aged 35, is the parts and service support manager. Mr. Lee is responsible for overseeing the day-to-day sales of spare parts and after sales services. Mr. Lee has worked in the heavy equipment industry for over 4 years. He joined the Group in March 2014 and was promoted progressively over the years to parts and service support manager in May 2018.

## COMPANY SECRETARY AND COMPLIANCE OFFICER

Ms. Ng Wai Ying is the company secretary and compliance officer of the Company. Details of her qualifications and experience are set out in the paragraph headed "Executive Directors" in this section.

The Board is pleased to present its report and the audited consolidated financial statements of the Group for the year ended 31 July 2019.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements. There was no significant change in the Group's principal activities during the year ended 31 July 2019.

## CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 11 December 2015 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a corporate reorganisation of the Group (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 23 June 2017. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group structure" of the Prospectus.

The Company's issued ordinary shares of HK$0.01 each (the "Share(s)") have been listed on GEM of the Stock Exchange since the Listing Date on 27 July 2017.

## BUSINESS REVIEW

Detailed business review is set out in the section headed "Management Discussion and Analysis" ("MD&A") of the annual report from pages 8 to 15. Future development of the Company's business is set out in the MD&A and the section headed "Chairman's Statement" in the annual report from pages 6 to 7.

## KEY RISKS AND UNCERTAINTIES

Discussion of key risks and uncertainties is included in the section headed "Chairman's Statement" in the annual report from pages 6 to 7. The Group believes that the risk management practices are important and uses its best effort to ensure it is sufficient to mitigate the risks present in the operations and financial position as efficiently and effectively as possible.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The business of the Group depends on, among others, its ability to meet its customers' requirements in respect of safety, quality and environmental aspects. In order to meet customers' requirements, the Group has established safety, quality and environmental management systems. Through an effective control of its operations, compliance with safety, quality and environmental requirements can be further assured. Detailed discussion of the environmental policies and performance will be included in the Environmental, Social and Governance Report which will be separately published on the respective websites of the Stock Exchange and the Company within three months after publication of the annual report.

## COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 July 2019.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

During the year ended 31 July 2019, the Group has maintained a good relationship with its stakeholders, including employees, customers, suppliers, banks, regulators and shareholders of the Company (the "Shareholders"). The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders. Detailed discussion of the key relationships with employees, customers and suppliers will be included in the Environmental, Social and Governance Report which will be separately published on the respective websites of the Stock Exchange and the Company within three months after publication of the annual report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 July 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 53.

The Board has resolved not to recommend any final dividend for the year ended 31 July 2019 (2018: nil). An interim dividend of HK0.5 cent per Share for the six months ended 31 January 2019, amounting to HK$5.0 million (2018: nil), was paid to the Shareholders on 17 April 2019.

## ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "2019 AGM") is scheduled to be held on Monday, 9 December 2019. A notice convening the 2019 AGM will be issued and despatched to the Shareholders.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders' entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Wednesday, 4 December 2019 to Monday, 9 December 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2019 AGM, all completed share transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 3 December 2019.

## RESERVES

Details of movements in the reserves of the Group during the year ended 31 July 2019 are set out in the consolidated statement of changes in equity on page 55 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 July 2019 are set out in note 16 to the consolidated financial statements.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 112 of the annual report. This summary does not form part of the consolidated financial statements.

## CHARITABLE CONTRIBUTIONS

During the year ended 31 July 2019, the Group made charitable contributions totalling HK$551,000 (2018: HK$641,000).

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of revenue attributable to the Group's five largest customers was less than 30% of the Group's total revenue for the year ended 31 July 2019. The aggregate purchases attributable to the Group's five largest suppliers were 65.8% (2018: 45.5%) of the Group's total purchases for the year ended 31 July 2019 with the largest supplier accounted for 45.4% (2018: 24.2%) of the total purchases.

To the best of the knowledge of the Directors, none of the Directors, their respective close associates (as defined in the GEM Listing Rules) or any Shareholders (which to the best knowledge of the Directors owns more than 5% of the Company's issued Shares) had any interests in any of the Group's five largest customers or suppliers.

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

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

## SUFFICIENCY OF PUBLIC FLOAT

During the year ended 31 July 2019 and as at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31 July 2019 and thereafter up to the date of this report as required under the GEM Listing Rules.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association (the "Articles of Association"), or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

## SHARE CAPITAL

Details of the Company's share capital are set out in note 25 to the consolidated financial statements.

## SHARE OPTION SCHEME

The share option scheme of the Company (the "Scheme") is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Scheme was adopted on 30 June 2017. There were no share options granted or agreed to be granted under the Scheme from the date of its adoption to 31 July 2019 and up to the date of this report.

The following is a summary of the principal terms of the Scheme but it does not form part of, nor was it intended to be part of the Scheme nor should it be taken as affecting the interpretation of the rules of the Scheme:

(a) Purpose of the Scheme

The purpose of the Scheme is to enable the Company to grant options to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries.

(b) Participants of the Scheme

The Board may, at its discretion, offer to grant an option to the following parties (collectively the "Eligible Participants") to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries; and

(iii) any advisors, consultants, agents, suppliers, customers, distributors and such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries.

(c) Amount payable on acceptance of the option

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the relevant acceptance date.

(d) Total number of securities available for issue under the Scheme together with the percentage of the issued shares that it represents as at the date of this report

The maximum number of the Shares in respect of which options may be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of the Shares in issue (the "General Scheme Limit"). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the Board may:

(i) renew the General Scheme Limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the General Scheme Limit to Eligible Participants specifically identified by the Board.

As at the date of this report, the maximum number of the Shares in respect of which options may be granted under the Scheme and any other share option schemes of the Company is 100,000,000 Shares.

(e) Maximum entitlement of each participant under the Scheme

(i) Subject to (ii) below, total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

(ii) If the Board proposes to grant options to a substantial shareholder (as defined in the GEM Listing Rules) or any independent non-executive Director or their respective associates (as defined in the GEM Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the Shares in issue and having an aggregate value in excess of HK$5 million based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to Shareholders' approval in advance in a general meeting.

(f) Basis of determining the exercise price

The exercise price in relation to each option granted under the Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price shall not be less than the highest of:

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

(g) Period within which the securities must be taken up under an option

An option may be exercised in accordance with the terms of the Scheme at any time during the period to be notified by the Board to each grantee within which the option may be exercisable provided that such period of time shall not exceed a period of 10 years commencing from the date upon which the option is deemed to be granted and accepted.

(h) Remaining life of the Scheme

The Scheme shall be valid and effective for a period of 10 years from the Listing Date.

## EQUITY-LINKED AGREEMENTS

Other than the Scheme as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 July 2019 or subsisted at the end of the year ended 31 July 2019.

## DISTRIBUTABLE RESERVES

Share premium and retained profit of the Company may be available for distribution to the Shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. The Company's reserves available for distribution to the Shareholders as at 31 July 2019 amounted to approximately HK$86.3 million (31 July 2018: approximately HK$83.7 million).

## DIRECTORS

During the year ended 31 July 2019 and up to the date of this report, the Board's composition is as follows:

Executive Directors
Mr. CHOW Luen Fat *(Chairman and Chief Executive Officer)*
Ms. LIU Shuk Yee
Ms. NG Wai Ying

Non-executive Director
Ms. CHENG Ju Wen

Independent non-executive Directors
Sir KWOK Siu Man KR
Mr. LAW Tze Lun
Dr. WONG Man Hin Raymond

### Retirement and Re-election of Directors

In accordance with Article 84 of the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he/she retires.

Mr. Chow Luen Fat, Ms. Ng Wai Ying, Mr. Law Tze Lun and Dr. Wong Man Hin Raymond will retire by rotation and, being eligible, offer themselves for re-election at the 2019 AGM.

## DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing on the Listing Date subject to termination in certain circumstances as stipulate in the relevant service agreement.

The non-executive Director and each of the independent non-executive Directors has entered into a letter of appointment with the Company for renewing her/his term of office for one year commencing on 27 July 2019 subject to renewal and termination in certain circumstances as stipulated in the relevant letter of appointment.

Save as disclosed above, none of the Directors proposed for re-election at the 2019 AGM has a service agreement or letter of appointment with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors a written annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Nomination Committee of the Company has assessed the independence of the independent non-executive Directors and confirmed that all independent non-executive Directors remained independent.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 July 2019, the interests or short positions of the Directors and 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 ("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 positions in the Shares*

| Directors | Nature of interest | Number of Shares held | Percentage of the Company's issued Shares |
|---|---|---|---|
| Mr. CHOW Luen Fat ("Mr. Chow") | Interest in a controlled corporation (Note) | 750,000,000 | 75% |
| Ms. CHENG Ju Wen ("Ms. Cheng") | Interest in a controlled corporation (Note) | 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 positions in the ordinary shares of associated corporation*

| Directors | Name of associated corporation | Nature of interest | Number of ordinary shares held | Percentage of issued ordinary 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 July 2019, 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 July 2019, so far as the Directors were 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 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 positions in the Shares

| Name of shareholder | Nature of interest | Number of Shares held | Percentage of the Company's issued Shares |
|---|---|---|---|
| Generous Way Limited | Beneficial owner | 750,000,000 | 75% |

Save as disclosed above, as at 31 July 2019, the Directors were not aware of any persons who or entities which had interests or short positions in the Shares or underlying Shares, 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.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save and except for the Scheme, at no time during the year ended 31 July 2019 was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or its parent company was a party and in which a Director or an entity connected with any of them had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 July 2019 or at any time during the year ended 31 July 2019.

## CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

No contract of significance between the Company or any of its subsidiaries and a controlling shareholder of the Company (as defined in the GEM Listing Rules) or any of its subsidiaries, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries subsisted at the end of the year ended 31 July 2019 or at any time during the year ended 31 July 2019.

## TAX RELIEF

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

## COMPETING INTEREST

For the year ended 31 July 2019, the Directors were not aware of any business or interest of the Directors, the controlling shareholders, and their respective close associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

A deed of non-competition (the "Deed of Non-competition") dated 30 June 2017 was executed in favour of the Company (for itself and as trustee for each of its subsidiaries) by Mr. Chow Luen Fat, Ms. Cheng Ju Wen and Generous Way Limited regarding certain non-competition undertakings. The details of the Deed of Non-competition have been disclosed in the Prospectus under the section headed "Relationship with Our Controlling Shareholders".

## MANAGEMENT CONTRACTS

No contract relating to the management and/or administration of the whole or any substantial part of any business of the Group was entered into or subsisted during the year ended 31 July 2019.

## EMPLOYEES AND EMOLUMENT POLICY

As at 31 July 2019, the Group employed 117 (31 July 2018: 55) full-time employees. The total staff costs (including Directors' remuneration) were approximately HK$30.6 million for the year ended 31 July 2019 (2018: approximately HK$26.9 million). The Group determines the employees' remuneration based on factors such as their performance, qualification, position, duty, contributions and years of experience, local market conditions and the Group's results. The remuneration policy is reviewed by the Board regularly. The remuneration package includes salary, allowances and bonus. The Group also makes contributions to the mandatory provident fund scheme. The Company adopted a share option scheme on 30 June 2017 for the purpose of enabling the Company to grant options to, among others, the employees and directors of the Group. The Group also arranges technical trainings to its existing employees on the operations of its existing and newly introduced heavy vehicles and other heavy equipment provided by the manufacturers.

## 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 July 2019, as notified by Southwest Securities, save for (i) the compliance adviser agreement and (ii) the agreement for the provision of financial advisory service entered into between the Company and Southwest Securities dated 4 July 2017 and 31 July 2019 respectively, neither Southwest Securities nor any of its directors, employees or close associates had any interests in relation to the Company.

## CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

Significant related party transactions entered into by the Group during the year ended 31 July 2019 and the year ended 31 July 2018 are set out in note 32 to the consolidated financial statements.

The Directors consider that the significant related party transactions disclosed in note 32 to the consolidated financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) under Chapter 20 of the GEM Listing Rules requiring compliance with any of the reporting, announcement or independent Shareholders' approval requirements.

## REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the audited consolidated financial statements of the Group for the year ended 31 July 2019 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.

## PERMITTED INDEMNITY PROVISIONS

The Articles of Association provides, among others, that every Director shall be entitled to be indemnified out of the assets or profits of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has also arranged proper insurance coverage in respect of legal actions against the Directors' liability.

## EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS AND THE DIRECTORS

Details of the emoluments of the five highest paid individuals and the Directors for the year ended 31 July 2019 are set out in notes 12 and 13 to the consolidated financial statements, respectively.

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with all applicable code provisions set out in the Corporate Governance Code as contained in Appendix 15 to the GEM Listing Rules (the "Code Provision(s)") during the year ended 31 July 2019, save for the deviation from Code Provision A.2.1.

Reasons for the derivation from Code Provision A.2.1 and further information on the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of the annual report from pages 35 to 46.

The compliance officer and the company secretary of the Company is Ms. NG Wai Ying, whose biographical details are set out on page 17.

## INDEPENDENT AUDITOR

RSM Hong Kong will retire at the conclusion of the 2019 AGM and be eligible to offer themselves for re-appointment. A resolution will be submitted to the 2019 AGM to be held on Monday, 9 December 2019 to seek the Shareholders' approval on the re-appointment of RSM Hong Kong as the Company's independent auditor until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

There has been no change in independent auditor of the Company since the Listing Date.

## IMPORTANT EVENTS AFTER THE YEAR ENDED 31 JULY 2019

The Board is not aware of any important events affecting the Group, which have occurred subsequent to the end of the year ended 31 July 2019 and up to the date of this report.

On behalf of the Board
CHOW Luen Fat
*Chairman*

Hong Kong, 10 October 2019

The Company is committed to fulfilling its responsibilities to Shareholders and protecting and enhancing Shareholders' values through good corporate governance.

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures, internal control and risk management procedures of the Group so as to achieve effective accountability.

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with all applicable Code Provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules during the year ended 31 July 2019, save for the deviation from Code Provision A.2.1. Reasons for such derivation are set out in the paragraph headed "Chairman and Chief Executive" in this report.

## BOARD OF DIRECTORS

### Responsibilities, Accountabilities and Contributions of the Board

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support is in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to formulating the Group's business plans and strategies, deciding all significant financial (including major capital expenditure) and operational issues, developing, monitoring and reviewing the Group's corporate governance practices and all other functions reserved to the Board under the Articles of Association. The Board has established board committees and has delegated to these board committees various responsibilities as set out in their respective terms of reference which are published on the respective websites of the Stock Exchange and the Company. The responsibilities of these board committees include monitoring the Group's operational and financial performance, and ensuring that appropriate internal control and risk management systems are in place. The Board may from time to time delegate certain functions to the management of the Group if and when considered appropriate. The management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time.

The Directors have full access to information of the Group and the management has an obligation to supply the Directors with adequate information in a timely manner to enable the Directors to perform their responsibilities. The Directors are entitled to seek independent professional advice in appropriate circumstances at the Company's expense. Proper insurance coverage in respect of legal actions against the Directors' liability has been arranged by the Company.

## Composition

The Company has been maintaining a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors (the "INEDs")) so that there is a strong independent element on the Board, enabling the Board to exercise effective independent judgement.

As at the date of the annual report, the Board comprises the following seven Directors, of which the non-executive Directors (including INEDs) in aggregate represent over 50% of the Board members:

### Executive Directors
Mr. CHOW Luen Fat *(Chairman and Chief Executive Officer)*
Ms. LIU Shuk Yee
Ms. NG Wai Ying

### Non-executive Director
Ms. CHENG Ju Wen

### Independent non-executive Directors
Sir KWOK Siu Man KR
Mr. LAW Tze Lun
Dr. WONG Man Hin Raymond

Note: Mr. Chow Luen Fat, the chairman of the Board and the chief executive officer of the Company, and Ms. Cheng Ju Wen, the non-executive Director, are spouses.

The biographical details of each of the Directors are set out in the section headed "Directors and Senior Management" of the annual report.

Save as disclosed above, there was no financial, business, family or other material relationship among the Directors during the year ended 31 July 2019 and up to the date of the annual report.

The INEDs have brought in a wide range of business and financial expertise, experience and independent judgement to the Board. Through their active participation in the Board meetings and serving on various board committees, all INEDs continue to make various contributions to the Company.

Throughout the year ended 31 July 2019, the Company fulfilled the requirements set out in Rules 5.05 and 5.05A of the GEM Listing Rules that the Board must include at least three INEDs and they must represent at least one-third of the Board members, and that at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received an annual confirmation of independence in writing from each of the INEDs pursuant to Rule 5.09 of the GEM Listing Rules. Based on such confirmation, the Company considers that all the INEDs are independent and have met the independence guidelines as set out in Rule 5.09 of the GEM Listing Rules during the year ended 31 July 2019 and up to the date of the annual report.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing on the Listing Date.

Each of the non-executive Directors (including INEDs) has entered into a letter of appointment with the Company for a term of one year commencing on 27 July 2019.

All the Directors, including INEDs, are subject to retirement by rotation and, being eligible, may offer themselves for re-election in accordance with the Articles of Association. At each annual general meeting ("AGM") of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at the AGM at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he/she retires.

Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and shall be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

## BOARD MEETINGS AND ATTENDANCE RECORDS

The Board is scheduled to meet at least four times a year at approximately quarterly intervals with notice given to the Directors at least 14 days in advance. For all other Board meetings, notice will be given in a reasonable time in advance. The Directors are allowed to include any matter in the agenda that is required for discussion and resolution at the Board meeting. To enable the Directors to be properly briefed on issues arising at each of the Board meetings and to make informed decisions, an agenda and the accompanying Board papers will be sent to all Directors at least three days before the intended date of the Board meeting, or such other period as agreed. The company secretary of the Company is responsible for recording and keeping all minutes of Board meetings. Draft and final versions of the minutes will be circulated to all Directors for their comments and records respectively within a reasonable time after each Board meeting and the final version is open for the Directors' inspection.

During the year ended 31 July 2019, five Board meetings were held. The attendance of each Director at Board meetings during the year ended 31 July 2019 is as follows:

| | No. of attendance/No. of meetings |
|---|---|
| Mr. CHOW Luen Fat | 5/5 |
| Ms. LIU Shuk Yee | 5/5 |
| Ms. NG Wai Ying | 5/5 |
| Ms. CHENG Ju Wen | 5/5 |
| Sir KWOK Siu Man KR | 5/5 |
| Mr. LAW Tze Lun | 5/5 |
| Dr. WONG Man Hin Raymond | 5/5 |

### Nomination Policy

The Board has formalised its existing practices into a nomination policy. The nomination policy sets out the criteria, procedures and process for the selection, appointment and re-election of the Directors.

The Nomination Committee, if having consideration of the current Board composition and size and shareholder structure of the Company recommends the addition of new director, or at the time where casual vacancy arises, shall determine the required skilled set, relevant expertise and experience for the new director.

The Nomination Committee may invite nominations of candidates from Board members for its consideration prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

The Nomination Committee will consider, among others, the following factors when assessing the suitability of a proposed candidate:

- reputation for integrity;
- accomplishment and experience (in particular those with expertise in the financial services industry or listed companies);
- commitment in terms of time and interest;
- gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- potential contribution to board diversity;
- independence with reference to the independence guidelines set out in the GEM Listing Rules if the potential candidates will be appointed as independent non-executive Directors;
- number of directorships in other listed/public companies if the potential candidates will be appointed as independent non-executive Directors.

The Nomination Committee has the discretion to nominate any person as it considers appropriate. Once the Nomination Committee agreed on a preferred candidate, for new addition to the board or filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval; whereas for proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

In cases of re-election of existing Directors who will retire at annual general meetings or general meetings of the Company, the Nomination Committee will review the performance, independence (in the case of independent non-executive Director), rotation and retirement of Directors and make recommendations to the Board accordingly.

### Board Diversity Policy

The Board has reviewed the Board diversity policy which sets out all measurable objectives to achieve and maintain diversity on the Board to enhance effectiveness of the Board.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experiences and varying perspectives appropriate for the Company's business. All Board appointments are made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates are based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge.

### Directors' Induction and Continuing Professional Development

Each of the Directors has received a formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure that he/she has a proper understanding of the Company's operations and business and is fully aware of his/her responsibilities under statute and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

The Company from time to time funds and arranges suitable training to all Directors to develop and refresh their knowledge and skills in relation to their duties and responsibilities, such that their contribution to the Board remains informed and relevant. All Directors are also encouraged to attend relevant training courses at the Company's expense and they have been requested to provide the Company with their training records.

According to the training records maintained by the Company, the continuing professional development programmes received by each of the Directors in the year ended 31 July 2019 is summarised as follows:

| | Type of trainings |
|---|---|
| Mr. CHOW Luen Fat | A and B |
| Ms. LIU Shuk Yee | A and B |
| Ms. NG Wai Ying | A and B |
| Ms. CHENG Ju Wen | A and B |
| Sir KWOK Siu Man KR | A and B |
| Mr. LAW Tze Lun | A and B |
| Dr. WONG Man Hin Raymond | A and B |

A: Attending training sessions, including but not limited to, seminars, briefings, conferences, forums and workshops relevant to regulatory and governance updates

B: Reading newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities

### Compliance with the Required Standard of Dealings in Securities 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 (the "Required Standard of Dealings") as its required standard for Directors' dealings 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 year ended 31 July 2019.

The Required Standard of Dealings is also applicable to dealings in the securities of the Company by other employees of the Group who are likely to be in possession of inside information of the Company.

## CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 of 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 is the chairman of the Board and the chief executive officer of the Company. In view of the fact that Mr. Chow Luen Fat 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 Luen Fat 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 Code Provision A.2.1.

Mr. Chow Luen Fat provides leadership to the Company and is responsible for overall management, strategic planning and supervision of operations of the Group.

## BOARD COMMITTEES

The Board has established three board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. The board committees are provided with sufficient resources to discharge their duties.

The written terms of reference for the board committees are posted on the respective websites of the Stock Exchange and the Company.

### Audit Committee

The Audit Committee was established on 30 June 2017 with written terms of reference in compliance with the CG Code. It comprises three INEDs, namely Mr. Law Tze Lun (chairman of the Audit Committee), Sir Kwok Siu Man KR and Dr. Wong Man Hin Raymond.

The duties of the Audit Committee include, but not limited to reviewing the Group's financial reports, internal control and risk management systems in order to ensure the presentation of a true and balanced assessment of the Group's financial position and corporate governance, reviewing the effectiveness of the Company's internal audit function, making recommendation to the Board on the appointment of auditor, and reviewing financial and accounting policies and practices adopted by the Group.

The Audit Committee shall meet with the Company's external auditor at least twice a year. During the year ended 31 July 2019, five Audit Committee meetings were held. At the meetings, the Audit Committee, among other matters, (i) reviewed the report from the external auditor regarding the audit on the Group's annual consolidated financial statements; (ii) reviewed the annual, interim and quarterly results announcements and reports; (iii) discussed with the management and the external auditor the issues concerning the accounting policies and practices which may affect the Group, along with financial reporting matters; (iv) reviewed the risk management and internal control systems; and (v) reviewed the internal control review reports from the external consultant.

The attendance records of members at the Audit Committee meetings are as follows:

| | No. of attendance/No. of meetings |
|---|---|
| Mr. LAW Tze Lun *(Committee Chairman)* | 5/5 |
| Sir KWOK Siu Man KR | 5/5 |
| Dr. WONG Man Hin Raymond | 5/5 |

The annual report for the year ended 31 July 2019 has been reviewed by the Audit Committee.

## Remuneration Committee

The Remuneration Committee was established on 30 June 2017 with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises three INEDs, namely Dr. Wong Man Hin Raymond (chairman of the Remuneration Committee), Sir Kwok Siu Man KR and Mr. Law Tze Lun.

The duties of the Remuneration Committee include, but not limited to making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing the remuneration policy, assessing performance of executive Directors and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

During the year ended 31 July 2019, one Remuneration Committee meeting was held. At the meeting, the Remuneration Committee, among other matters, reviewed and recommended to the Board for consideration certain remuneration-related matters of the Directors and senior management.

The attendance records of members at the Remuneration Committee meeting are as follows:

| | No. of attendance/No. of meetings |
|---|---|
| Dr. WONG Man Hin Raymond *(Committee Chairman)* | 1/1 |
| Sir KWOK Siu Man KR | 1/1 |
| Mr. LAW Tze Lun | 1/1 |

## Nomination Committee

The Nomination Committee was established on 30 June 2017 with written terms of reference in compliance with the CG Code. It comprises three INEDs, namely Sir Kwok Siu Man KR (chairman of the Nomination Committee), Mr. Law Tze Lun and Dr. Wong Man Hin Raymond.

The duties of the Nomination Committee include, but not limited to reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships, monitoring and reviewing the implementation of the Company's nomination policy and board diversity policy, and reviewing the measurable objectives that the Board has set for implementing the Company's board diversity policy.

During the year ended 31 July 2019, one Nomination Committee meeting was held. At the meeting, the Nomination Committee, among other matters, (i) reviewed the structure, size and composition of the Board; (ii) assessed the independence of the INEDs; (iii) reviewed the effectiveness of the board diversity policy; and (iv) recommended to the Board for consideration the re-election of the retiring Directors at the 2018 AGM.

The attendance records of members at the Nomination Committee meeting are as follows:

| | No. of attendance/No. of meetings |
|---|---|
| Sir KWOK Siu Man KR *(Committee Chairman)* | 1/1 |
| Mr. LAW Tze Lun | 1/1 |
| Dr. WONG Man Hin Raymond | 1/1 |

## 2018 AGM

To ensure an effective communication with Shareholders, the chairman of the Board, the respective chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee, and representatives of the external auditor of the Company attended the 2018 AGM held on 5 December 2018.

The attendance of each Director at the 2018 AGM is as follows:

| | Attendance |
|---|---|
| Mr. CHOW Luen Fat | ✓ |
| Ms. LIU Shuk Yee | ✓ |
| Ms. NG Wai Ying | ✓ |
| Ms. CHENG Ju Wen | ✓ |
| Sir KWOK Siu Man KR | ✓ |
| Mr. LAW Tze Lun | ✓ |
| Dr. WONG Man Hin Raymond | ✓ |

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions as set out in Code Provision D.3.1 of the CG Code, which include:

- developing and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring the training and continuous professional development of the Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and the Directors; and
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars of the Directors' remuneration for the year ended 31 July 2019 are set out in note 13 to the consolidated financial statements.

Pursuant to Code Provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors), whose particulars are contained in the section headed "Directors and Senior Management" of the annual report, for the year ended 31 July 2019 by band is set out below:

| Remuneration band (in HK$) | Number of individuals |
|---|---|
| Nil to 1,000,000 | 2 |

## INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid or payable to RSM Hong Kong, being the independent auditor of the Company, in respect of the audit services related to the audit for the year ended 31 July 2019 amounted to HK$0.7 million.

The remuneration paid or payable to RSM Hong Kong and its related entities in respect of the services in connection with other permissible non-audit services amounted to HK$0.2 million (2018: nil) and HK$48,000 (2018: HK$28,000) respectively.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Company which give a true and fair view of the state of affairs of the Group. In preparing such financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the external auditor of the Company about its reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report on pages 47 to 52 of the annual report.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group does not have an internal audit department. The Group engaged an external consultant, BT Corporate Governance Limited, to assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and conduct an internal control review on the adequacy and effectiveness of the risk management and internal control systems of the Group for the year ended 31 July 2019. Through the risk identification and assessment processes, risks are identified, assessed and prioritised, and treatments are allocated. The relevant risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversees risk management and internal audit functions. The internal control review covers certain business cycles and procedures undertaken by the Group, and make recommendations for improving and strengthening the internal control system. No significant area of concern that may affect the financial, operational, compliance, control and risk management of the Group has been identified.

During the year ended 31 July 2019, the Board, through the Audit Committee, conducted the annual review of the effectiveness of the risk management and internal control systems of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers that the Group's risk management and internal control are adequate and effective.

## DISCLOSURE OF INSIDE INFORMATION

The Company acknowledges its responsibility for ensuring that the inside information of the Group is to be disseminated to the public in equal and timely manner in accordance with the SFO, GEM Listing Rules and all applicable laws and regulations. Procedures and internal controls for handling and dissemination of inside information are in place, which include, but not limited to conducting the Group's affairs with close regard to the disclosure requirement under the SFO, GEM Listing Rules and all applicable laws and regulations; taking all reasonable steps to maintain strict confidentiality of inside information until it is announced; and establishing and implementing procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the company secretary and the financial controller of the Company are authorised to communicate with parties outside the Group.

## COMPANY SECRETARY

The company secretary of the Company (the "Company Secretary") is Ms. Ng Wai Ying ("Ms. Ng"), who has sound understanding of the operations of the Board and the Group. During the year ended 31 July 2019, Ms. Ng has received no less than 15 hours of professional training in compliance with Rule 5.15 of the GEM Listing Rules. As the Company Secretary, Ms. Ng has been reporting to the chairman of the Board who is also the chief executive officer of the Company. All members of the Board have access to her advice and services. The appointment and removal of the Company Secretary will be subject to the Board's approval.

## SHAREHOLDERS' RIGHTS

### Procedures for Putting Forward Proposals at Shareholders' Meetings

There are no provisions allowing Shareholders to make proposals or move resolutions at the AGMs under the Memorandum and Articles of Association of the Company or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting (the "EGM") in accordance with the "Procedures for Shareholders to convene an EGM" set out below.

### Procedures for Shareholders to Convene an EGM

According to Article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than 10% of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned at the principal place of business of the Company in Hong Kong (presently D.D. 111, Lot No. 117, Sheung Che Village, Pat Heung, Yuen Long, New Territories, Hong Kong) for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding(s) in the Company, the reason(s) to convene an EGM and the proposed agenda.

The Company will check the Requisition and the identity and shareholding(s) of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM and/or include the proposal(s) made or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM within 2 months after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of the outcome and accordingly, the Board will not call for an EGM nor include the proposal(s) made or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) by the Company.

### Procedures for Shareholders to Send Enquires to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong (presently at D.D. 111, Lot No. 117, Sheung Che Village, Pat Heung, Yuen Long, New Territories, Hong Kong) for the attention of the Company Secretary.

Upon receipt of the enquiries, the Company Secretary will forward the communications relating to:

1. the matters within the Board's purview to the executive Directors;

2. the matters within a board committee's area of responsibility to the chairman of the appropriate committee; and

3. ordinary business matters, such as suggestions, enquiries and client complaints to the appropriate management of the Company.

## DIVIDEND POLICY

The Group does not have any pre-determined dividend distribution ratio. The declaration of any dividends depends on the results of operations, cash flows and financial condition, cash requirements and other relevant factors that the Directors deem relevant from time to time. Dividends may be paid only out of the Company's distributable reserves as permitted under the relevant laws. Final dividend for any financial year will in addition be subject to Shareholders' approval.

## COMMUNICATION WITH THE SHAREHOLDERS

The Board is committed to maintaining an on-going dialogue with Shareholders. The Company has adopted a Shareholders' communication policy with the objective of ensuring that appropriate steps are taken to provide effective communication with the Shareholders. The Company will review the Shareholders' communication policy on a regular basis to ensure its effectiveness.

Information will be communicated to the Shareholders through the Company's AGMs and other EGMs that may be convened as well as all announcements, corporate notices, and other financial and non-financial information published on the respective websites of the Stock Exchange and the Company in a timely manner.

## CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year ended 31 July 2019.

The Memorandum and Articles of Association of the Company is available on the respective websites of the Stock Exchange and the Company.

TO THE SHAREHOLDERS OF TAK LEE MACHINERY HOLDINGS LIMITED
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Tak Lee Machinery Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 53 to 111, which comprise the consolidated statement of financial position as at 31 July 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are estimation of the net realisable value of inventories and impairment assessment on trade receivables.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| Estimation of the net realisable value of inventories<br><br>Refer to notes 4(e) and 17 to the consolidated financial statements respectively.<br><br>As at 31 July 2019, the Group's inventories amounted to approximately HK$186,736,000, net of allowance for inventories of approximately HK$1,061,000, which represented 34.4% of the Group's total assets.<br><br>Inventories are carried at the lower of cost and net realisable value. Net realisable value is determined based on (i) independent valuations prepared by a qualified external valuer for the machinery (known as heavy vehicle and equipment); and (ii) the estimated selling price less the estimated costs of completion, if relevant, other costs necessary to make the sale for attachment and spare parts.<br><br>We focused on this area because of the significance of the inventories balance and the management judgements involved in identifying inventories subject to write-down and determining their net realisable value. | Our procedures in relation to management's estimation of the net realisable value of inventories included:<br><br>• Noting any slow moving and obsolete inventories during our attendance/observation of the physical inventory count at year end;<br><br>• Obtaining and examining the valuation reports for heavy vehicles and equipment, prepared by the external valuer engaged by the Group;<br><br>• Evaluating the independence, qualifications, expertise and objectivity of the external valuer;<br><br>• Assessing the appropriateness of the valuation methodologies and inputs adopted by the external valuer;<br><br>• Testing inventories to assess if they are stated at the lower of cost or net realisable value by comparing the actual sales value to the carrying value of selected samples of finished goods;<br><br>• Testing on a sample basis the inventory ageing analysis of the Group at year end, and reviewing subsequent usage and sales of inventories after year end, taking into consideration the impact of changes in technology and customers' preference and our knowledge of the Group's business operations and the industry in which the Group operates; and<br><br>• Discussed with the management in respect of the adequacy of the allowance made by the management based on aging analysis and individual assessments. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment assessment on trade receivables**<br><br>Refer to notes 4(h), 4(p) and 18 to the consolidated financial statements respectively.<br><br>As at 31 July 2019, the Group's trade receivables amounted to approximately HK$89,569,000, net of allowance for doubtful debts of approximately HK$3,451,000 which represented 16.5% of the Group's total assets.<br><br>The Group's trading terms with customers are ranged from 30 days to 90 days, depending on the creditworthiness of customers and the existing relationship with the Group.<br><br>Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, aging of overdue trade receivables, customers' repayment history and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. We identified assessing the recoverability of trade receivable as key audit matter because the assessment of the recoverability of trade receivables and recognition of loss allowance are inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias. | Our procedures in relation to assessing the recoverability of trade receivables included:<br><br>• Assessing whether trade receivables had been appropriately grouped by management based on their shared credit risk characteristics;<br><br>• Obtaining and examining the assessment report of expected credit losses of trade receivables, prepared by the external valuer engaged by the Group;<br><br>• Evaluating the independence, qualifications, expertise and objectivity of the external valuer;<br><br>• Testing the accuracy and completeness of the data used by the valuer to develop the historical loss rates and assessing the sufficiency, reliability and relevance of that data;<br><br>• Testing the accuracy of the aging of trade receivables on a sample basis to supporting documents; and<br><br>• Testing the calculation of expected credit loss provisions applying the provision rates to the age categories of the trade receivables outstanding at the reporting date. |

## OTHER INFORMATION AND AUDITOR'S REPORT THEREON

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Yam Tak Fai, Ronald.

RSM Hong Kong
Certified Public Accountants
Hong Kong
10 October 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 July 2019

| | Note | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | 572,049 | 599,819 |
| Cost of revenue | 8 | (491,659) | (508,642) |
| Gross profit | | 80,390 | 91,177 |
| Other income and net gains | 7 | 1,284 | 1,972 |
| Allowance for trade receivables | | (667) | – |
| Administrative and other operating expenses | | (30,303) | (24,316) |
| Profit from operations | | 50,704 | 68,833 |
| Finance costs | 9 | (3,929) | (2,540) |
| Profit before tax | | 46,775 | 66,293 |
| Income tax expense | 10 | (8,224) | (11,346) |
| Profit and total comprehensive income for the year attributable to owners of the Company | 11 | 38,551 | 54,947 |
| Earnings per share | | | |
| – Basic and diluted (HK cents per share) | 15 | 3.86 | 5.49 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 July 2019

| | Note | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 168,509 | 79,157 |
| Deposits paid for property, plant and equipment | 19 | 447 | – |
| | | 168,956 | 79,157 |
| **Current assets** | | | |
| Inventories | 17 | 186,736 | 199,070 |
| Trade receivables | 18 | 89,569 | 93,427 |
| Prepayments, deposits and other receivables | 19 | 31,306 | 65,467 |
| Bank and cash balances | 20 | 66,940 | 45,253 |
| | | 374,551 | 403,217 |
| **Current liabilities** | | | |
| Trade payables | 21 | 8,505 | 5,191 |
| Other payables and accruals | 21 | 4,045 | 4,645 |
| Contract liabilities | 21 | 9,919 | 18,021 |
| Finance lease payables | 22 | – | 30 |
| Current tax liabilities | | 3,180 | 2,831 |
| Bank borrowings | 24 | 134,095 | 109,229 |
| | | 159,744 | 139,947 |
| Net current assets | | 214,807 | 263,270 |
| Total assets less current liabilities | | 383,763 | 342,427 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 23 | 18,130 | 10,345 |
| NET ASSETS | | 365,633 | 332,082 |
| **Capital and reserves** | | | |
| Share capital | 25 | 10,000 | 10,000 |
| Reserves | | 355,633 | 322,082 |
| TOTAL EQUITY | | 365,633 | 332,082 |

Approved by the Board of Directors on 10 October 2019 and are signed on its behalf by:

Mr. Chow Luen Fat
*Director*

Ms. Ng Wai Ying
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2019

| | Share capital HK$'000 | Share premium HK$'000 *(note 27(b)(i))* | Merger reserve HK$'000 *(note 27(b)(ii))* | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 August 2017 | 10,000 | 92,661 | 2,620 | 171,854 | 277,135 |
| Profit and total comprehensive income for the year | – | – | – | 54,947 | 54,947 |
| At 31 July 2018 and 1 August 2018 | 10,000 | 92,661 | 2,620 | 226,801 | 332,082 |
| Profit and total comprehensive income for the year | – | – | – | 38,551 | 38,551 |
| Payment of 2019 interim dividend (note 14) | – | – | – | (5,000) | (5,000) |
| At 31 July 2019 | 10,000 | 92,661 | 2,620 | 260,352 | 365,633 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 July 2019

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 46,775 | 66,293 |
| Adjustments for: | | | |
| Allowance/(reversal of allowance) for trade receivables | 18 | 667 | (810) |
| (Reversal of allowance)/allowance for inventories, net | 17 | (184) | 1,391 |
| Depreciation | 16 | 21,799 | 11,328 |
| Impairment of property, plant and equipment | 16 | 659 | – |
| Net gain on disposals of property, plant and equipment | 7 | (520) | (233) |
| Interest income | 7 | (3) | (129) |
| Finance costs | 9 | 3,929 | 2,540 |
| Operating profit before working capital changes | | 73,122 | 80,380 |
| Decrease/(increase) in trade receivables | | 3,191 | (51,450) |
| Increase in inventories | | (32,437) | (83,454) |
| Increase in prepayments, deposits and other receivables | | (29,854) | (64,212) |
| Increase/(decrease) in trade payables | | 3,314 | (1,374) |
| Decrease in other payables and accruals | | (600) | (373) |
| (Decrease)/increase in contract liabilities | | (8,102) | 17,131 |
| Cash generated from/(used in) operations | | 8,634 | (103,352) |
| Hong Kong Profits Tax paid | | (90) | (4,769) |
| Finance costs paid | | (3,929) | (2,540) |
| Net cash generated from/(used in) operating activities | | 4,615 | (110,661) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 July 2019

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment | 16 & 28(a) | (3,434) | (14,575) |
| Proceeds from disposal of property, plant and equipment | | 667 | 250 |
| Interest received | | 3 | 129 |
| Decrease in pledged bank deposit | | – | 10,000 |
| Net cash used in investing activities | | (2,764) | (4,196) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Repayment of finance lease payables | 28(b) | (30) | (356) |
| Import loans raised | 28(b) | 318,532 | 309,114 |
| Repayment of import loans | 28(b) | (306,167) | (264,292) |
| Payment of 2019 interim dividend | 14 | (5,000) | – |
| Net cash generated from financing activities | | 7,335 | 44,466 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 12,501 | (578) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 21,687 | (70,969) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 45,253 | 116,222 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | 66,940 | 45,253 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | |
| Bank and cash balances | | 66,940 | 45,253 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 July 2019

## 1. GENERAL INFORMATION

Tak Lee Machinery Holdings Limited (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 Company and its subsidiaries (collectively the "Group") now comprising the Group are 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. Details of the principal activities of its subsidiaries are set out on note 33 to the consolidated financial statements.

In the opinion of the directors of the Company, Generous Way Limited ("Generous Way"), a company incorporated in the British Virgin Islands ("BVI"), is the immediate and ultimate parent, and Mr. Chow Luen Fat ("Mr. Chow") and Ms. Cheng Ju Wen ("Ms. Cheng") are the ultimate controlling parties of the Company.

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 to the consolidated financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior years reflected in these consolidated financial statements.

## 3. ADOPTION OF NEW AND REVISED HKFRSs

### (a) Application of new and revised HKFRSs

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for annual periods beginning on or after 1 August 2018. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9 Financial Instruments
(ii) HKFRS 15 Revenue from Contracts with Customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

*HKFRS 9 Financial instruments*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 August 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 August 2018. The difference between carrying amounts as at 31 July 2018 and the carrying amounts as at 1 August 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

*(a) Classification*

From 1 August 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVTPL"); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

### (a) Application of new and revised HKFRSs (continued)

*HKFRS 9 Financial instruments (continued)*

*(b) Measurement*

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures financial assets at its fair value plus, in the case of financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

### (a) Application of new and revised HKFRSs (continued)

*HKFRS 9 Financial instruments (continued)*

*(b) Measurement (continued)*

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

*(c) Impairment*

From 1 August 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

No significant financial impact of the adoption of HKFRS 9 on the Group's opening retained earnings as at 1 August 2018.

Impairment on other receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Set out below is the impact of the adoption of HKFRS 9 on the Group.

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 August 2018.

| Financial assets | Classification under HKAS 39 | Classification under HKFRS 9 | Carrying amount under HKAS 39<br>HK$'000 | Carrying amount under HKFRS 9<br>HK$'000 |
|---|---|---|---|---|
| Trade and other receivables | Loans and receivables | Amortised cost | 94,949 | 94,949 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 45,253 | 45,253 |

Trade and other receivables and cash and cash equivalents that were classified as loans and receivables under HKAS 39 are now classified at amortised cost. No allowance for impairment was recognised in opening retained earnings at 1 August 2018 on transition to HKFRS 9.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

### (a) Application of new and revised HKFRSs (continued)

*HKFRS 15 Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

The adoption of HKFRS 15 resulted in the following changes to the Group's accounting policies on revenue recognition.

*Revenue from sales of products*

Under HKFRS 15, revenue from the sales of products is recognised at a point in time when control of the products has transferred to customer, which generally coincides with the time when the goods picked up by logistics company designated by customer or the Group arrange for logistic company on behalf of customer at their own risk and costs or the Group has objective evidence that all criteria for acceptance have been satisfied.

*Revenue from provision of maintenance and ancillary services*

Under HKFRS 15, revenue from the provision of maintenance and ancillary services would continue recognise at a point in time when services rendered, and the Group has present right to payment and the collection of the consideration is probable.

The adoption of HKFRS 15 does not have financial impacts on the consolidated financial statements.

### (b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 August 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| HKFRS 16 Leases | 1 January 2019 |
| HK(IFRIC) 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| Annual Improvements to HKFRSs 2015 – 2017 Cycle | 1 January 2019 |
| Amendments to HKAS 28 Long-term Interest in Associates and Joint Ventures | 1 January 2019 |
| Amendments to HKFRS 3 Definition of a Business | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8 Definition of Material | 1 January 2020 |

## 3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

### (b) New and revised HKFRSs in issue but not yet effective (continued)

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's first quarter report for the three months ended 31 October 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that quarter financial report.

*HKFRS 16 Leases*

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low-value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 30 to the consolidated financial statements, the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$4,533,000 as at 31 July 2019. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2020 onwards.

*HK(IFRIC) 23 Uncertainty over Income Tax Treatments*

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 July. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary and any accumulated foreign currency translation reserve relating to that subsidiary.

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

In the Company's statements of financial position, the investment in a subsidiary is stated at cost less allowance for impairment losses. The results of subsidiary is accounted for by the Company on the basis of dividends received and receivable.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Foreign currency translation

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Property, plant and equipment

Property, plant and equipment, including leasehold land (classified as finance leases), held for use in the supply of goods or services, or for administrative purpose, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Leasehold land | Over the lease term |
| Leasehold improvements | Over the lease term |
| Plant and machinery | 20% |
| Machinery for lease | 10% - 24% |
| Furniture and fixtures | 20% |
| Office equipment | 20% |
| Motor vehicles | 30% |

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

The Group, in the course of its ordinary activities, sells its machinery from time to time that it has held for leasing income. Such assets will be transferred to inventories at their carrying amount when they cease to be leased and become held for sale.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Leases

*The Group as lessee*

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

*The Group as lessor*

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### (e) Inventories

Inventories for machinery, equipment and parts are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is determined using the first-in-first-out basis except for machinery and breaker which are determined on a specific identification basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### (g) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Financial assets (continued)

*Debt investments*

Debt investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVTOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

*Equity investments*

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Financial assets (continued)

*Policy prior to 1 August 2018*

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables and bank balances and cash are classified in this category.

### (h) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

### (i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses ("ECL").

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out from below.

*(i) Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

*(ii) Trade and other payables*

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

*(iii) Equity instruments*

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

### (k) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sales of heavy equipment and spare parts is recognised at a point in time when control of the goods has transferred to a customer, which generally coincides with the time when the goods picked up by logistics company designated by customer or the Group arrange for logistics company on behalf of customer at their own risk and costs or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue recognition for leasing of heavy equipment is recognised over the time on a straight-line basis over the term of the relevant lease.

Service income from maintenance and ancillary services is recognised at a point in time when services rendered, and the Group has present right to payment and the collection of the consideration is probable.

Interest income is recognised as it accrues using the effective interest method.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Revenue recognition (continued)

*Policy prior to 1 August 2018*

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of heavy equipment and spare parts is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Revenue recognition for leasing of heavy equipment is recognised on a straight-line basis over the term of the relevant lease.

Service income from maintenance and ancillary services is recognised when the service is rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

### (l) Employee benefits

*(i) Employee leave entitlements*

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

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

*(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

*(iii) Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (n) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (o) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss and other comprehensive income to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Impairment of financial assets

The Group recognises a loss allowance for ECL on trade receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on this financial asset is estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Impairment of financial assets (continued)

*Significant increase in credit risk (continued)*

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default;

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Impairment of financial assets (continued)

*Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or past due event;

– it is becoming probable that the counterparty will enter into bankruptcy or other financial reorganisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Impairment of financial assets (continued)

*Measurement and recognition of ECL*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

*Policy prior to 1 August 2018*

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Impairment of financial assets (continued)

*Policy prior to 1 August 2018 (continued)*

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

### (q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (r) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period, are discussed below.

### Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment as at 31 July 2019 was approximately HK$168,509,000 (2018: HK$79,157,000).

### Impairment of trade receivables

Prior to the adoption of HKFRS 9 on 1 August 2018, the management of the Group assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Since the adoption of HKFRS 9 on 1 August 2018, the management of the Group estimates the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 July 2019, the carrying amount of trade receivables is approximately HK$89,569,000, net of allowance for doubtful debts of HK$3,451,000 (2018: HK$93,427,000, net of allowance for doubtful debts of HK$2,784,000).

### Allowance for inventories

Allowance for inventories is made based on the aging and estimated net realisable value of inventories. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer's taste and competitor's actions in response to severe industry cycles. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. The Group will reassess the estimates by the end of each reporting period.

As at 31 July 2019, allowance for inventories amounted to HK$1,061,000 (2018: HK$1,391,000) was recognised.

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HKD, Japanese Yen ("JPY"), Euro ("EUR") and United Stated Dollars ("USD"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group's foreign currency denominated financial assets and liabilities, translated into HKD at the prevailing closing rates at the end of the year, are as follows:

| | HKD<br>HK$'000 | JPY<br>HK$'000 | EUR<br>HK$'000 | USD<br>HK$'000 | Renminbi ("RMB")<br>HK$'000 | British Pound ("GBP")<br>HK$'000 | Australian Dollar ("AUD")<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 July 2019 | | | | | | | | |
| Financial assets | 155,497 | 291 | 336 | 2,000 | – | – | –[(i)] | 158,124 |
| Financial liabilities | 139,400 | 2,411 | 1 | 3,416 | 1,417 | – | – | 146,645 |
| At 31 July 2018 | | | | | | | | |
| Financial assets | 139,145 | 239 | 4 | 467 | 347 | – | –[(i)] | 140,202 |
| Financial liabilities | 31,549 | 62,118 | 8,876 | 14,372 | 794 | 1,356 | – | 119,065 |

(i) Represent the amount less than HK$1,000.

*Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax and retained earnings in response to reasonably possible changes in the foreign exchange rates of JPY and EUR to which the Group has significant exposure at the end of the year. The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the year has been determined based on the change taking place at the beginning of the year and held constant throughout the year.

# 6. FINANCIAL RISK MANAGEMENT (continued)

## (a) Foreign currency risk (continued)

*Sensitivity analysis (continued)*

| | Increase/(decrease) in foreign exchange rates | Effect on profit after tax and retained earnings HK$'000 |
|---|---|---|
| **At 31 July 2019** | | |
| JPY | 3% | (53) |
| JPY | (3%) | 53 |
| EUR | 6% | 17 |
| EUR | (6%) | (17) |
| At 31 July 2018 | | |
| JPY | 1% | (517) |
| JPY | (1%) | 517 |
| EUR | 1% | (74) |
| EUR | (1%) | 74 |

As HKD is pegged to USD, the directors considered that the foreign currency risk exposure between HKD and USD is limited.

## (b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institution with high credit-rating assigned by international credit-rating agencies, for which the Group considers to has low credit risk.

*Trade receivables*

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due varying from the date of billing. Debtors with balances past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

## 6. FINANCIAL RISK MANAGEMENT (continued)

### (b) Credit risk (continued)

*Trade receivables (continued)*

The Group measures allowance for impairment of trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the allowance for impairment based on past due status is not further distinguished between the Group's different customer bases.

Expected loss rates are based on actual loss experience over the last 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group's largest customer contributed over 6.5% (2018: 9.7%) of the turnover for the year ended 31 July 2019 and shared nearly 0.1% (2018: 0.9%) of the trade receivables at the end of the reporting period. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recovery of the receivables and there is no recent history of default for the Group's largest customer.

*Bank and cash balances*

For bank and cash balances, the Group has assessed that they are mainly placed with banks with high credit rating with no recent history of default in relation to these financial institutions and concluded that the expected credit loss rate for these balances is immaterial.

## 6. FINANCIAL RISK MANAGEMENT (continued)

### (b) Credit risk (continued)

*Prior to 1 August 2018*

Prior to 1 August 2018, an impairment loss was recognised only when there was objective evidence of impairment.

The aging analysis of trade debtors that were not considered to be impaired was as follows:

| | 2018<br>HK$'000 |
|---|---|
| Neither past due nor impaired | 55,614 |
| Past due: | |
| 1 to 90 days | 31,184 |
| 91 to 180 days | 4,673 |
| Over 180 days | 1,956 |
| | 37,813 |
| | 93,427 |

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

### (c) Liquidity risk

The Group's policy is to regularly monitor its current and expected liquidity requirements, its compliance with lending covenants and its relationship with its bankers to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Bank borrowings with a repayment on demand clause should include in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

## 6. FINANCIAL RISK MANAGEMENT (continued)

### (c) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the Group can be required to pay.

| | Maturity Analysis – undiscounted cash outflows | | | | | |
|---|---|---|---|---|---|---|
| | Less than 1 year or on demand HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
| **At 31 July 2019** | | | | | | |
| Trade payables | 8,505 | – | – | – | 8,505 | 8,505 |
| Other payables and accruals | 4,045 | – | – | – | 4,045 | 4,045 |
| Bank borrowings | 135,241 | – | – | – | 135,241 | 134,095 |
| **At 31 July 2018** | | | | | | |
| Trade payables | 5,191 | – | – | – | 5,191 | 5,191 |
| Other payables and accruals | 4,645 | – | – | – | 4,645 | 4,645 |
| Bank borrowings | 109,909 | – | – | – | 109,909 | 109,229 |
| Financial lease payables | 30 | – | – | – | 30 | 30 |

## 6. FINANCIAL RISK MANAGEMENT (continued)

### (d) Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing financial liabilities, mainly borrowings which carried interest at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of the Company will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rate for borrowings at the end of the reporting period and assumed that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's consolidated profit after tax for the year ended 31 July 2019 would decrease/increase by approximately HK$1,120,000 (2018: HK$912,000), arising mainly as a result of higher/lower interest expense on borrowings.

### (e) Categories of the financial instruments at 31 July

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Financial assets:** | | |
| Financial assets measured at amortised cost | 158,124 | – |
| Loans and receivables (including cash and cash equivalents) | – | 140,202 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | 146,645 | 119,065 |

### (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. REVENUE AND SEGMENT INFORMATION

Revenue and other income and net gains recognised during the year are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Sales of heavy equipment and spare parts | 501,954 | 546,903 |
| Lease of heavy equipment | 65,846 | 47,383 |
| Maintenance and ancillary services | 4,249 | 5,533 |
| | 572,049 | 599,819 |
| **Other income and net gains** | | |
| Compensation income from suppliers | 616 | 295 |
| Net gain on disposals of property, plant and equipment | 520 | 233 |
| Interest income | 3 | 129 |
| Reversal of allowance for trade receivables | – | 810 |
| Freight rebates | – | 450 |
| Others | 145 | 55 |
| | 1,284 | 1,972 |

### Segment information

Management has determined the operating segments based on the reports reviewed by the directors of the Company, the chief operating decision-maker, that are used to make strategic decisions. The directors consider the business from a product/service perspective. Principal activities of the segments are as follows:

| | | |
|---|---|---|
| Sales of heavy equipment and spare parts | – | Trading of heavy equipment and spare parts in Hong Kong |
| Lease of heavy equipment | – | Leasing of heavy equipment in Hong Kong |
| Maintenance and ancillary services | – | Providing maintenance and ancillary services in Hong Kong |

Segment revenue is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

The directors assess the performance of the operating segments based on a measure of segment results. Unallocated income, unallocated corporate expenses, finance costs, income tax expense and other major items that are isolated and non-recurring in nature are not included in segment results.

Segment assets mainly consist of current assets and non-current assets as disclosed in the consolidated statement of financial position except unallocated bank and cash balances and other unallocated assets.

## 7. REVENUE AND SEGMENT INFORMATION (continued)

### Segment information (continued)

Segment liabilities mainly consist of current liabilities as disclosed in the consolidated statement of financial position except income tax liabilities, deferred tax liabilities, bank loan, obligations under finance leases and other unallocated liabilities.

*(i) Information about reportable segment profit or loss, assets and liabilities:*

| | Sales of heavy equipment and spare parts HK$'000 | Lease of heavy equipment HK$'000 | Maintenance and ancillary services HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 July 2019** | | | | | |
| External revenue | 501,954 | 65,846 | 4,249 | – | 572,049 |
| Segment results | 33,386 | 26,324 | 417 | (13,352) | 46,775 |
| Depreciation | 453 | 20,073 | – | 1,273 | 21,799 |
| Other material non-cash items: | | | | | |
| Allowance for trade receivables | 12 | 655 | – | – | 667 |
| Reversal of allowance for inventories, net | (184) | – | – | – | (184) |
| Impairment on property, plant and equipment | – | 659 | – | – | 659 |
| Additions to non-current assets | 695 | 147,138 | – | 2,739 | 150,572 |
| **As at 31 July 2019** | | | | | |
| Segment assets | 293,957 | 177,226 | 196 | 72,128 | 543,507 |
| Segment liabilities | 151,521 | 2,816 | – | 23,537 | 177,874 |
| Year ended 31 July 2018 | | | | | |
| External revenue | 546,903 | 47,383 | 5,533 | – | 599,819 |
| Segment results | 51,062 | 24,857 | 1,501 | (11,127) | 66,293 |
| Depreciation | 36 | 10,060 | – | 1,232 | 11,328 |
| Other material non-cash items: | | | | | |
| Reversal of allowance for trade receivables | 810 | – | – | – | 810 |
| Allowance for inventories | 1,391 | – | – | – | 1,391 |
| Additions to non-current assets | 13,135 | 131,407 | – | 1,440 | 145,982 |
| As at 31 July 2018 | | | | | |
| Segment assets | 362,920 | 70,478 | 208 | 48,768 | 482,374 |
| Segment liabilities | 132,553 | – | – | 17,739 | 150,292 |

## 7. REVENUE AND SEGMENT INFORMATION (continued)

### Segment information (continued)

*(ii) Reconciliation of reportable segment profit or loss, assets and liabilities:*

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Profit or loss** | | |
| Total profits of reportable segments | 60,127 | 77,420 |
| Unallocated amounts: | | |
| Unallocated income | 523 | 362 |
| Unallocated corporate expenses | (13,875) | (11,489) |
| Consolidated profit before tax | 46,775 | 66,293 |
| **Assets** | | |
| Total assets of reportable segments | 471,379 | 433,606 |
| Unallocated amounts: | | |
| Corporate property, plant and equipment | 4,019 | 2,005 |
| Prepayments, deposits and other receivables | 1,169 | 1,510 |
| Bank and cash balances | 66,940 | 45,253 |
| Consolidated total assets | 543,507 | 482,374 |
| **Liabilities** | | |
| Total liabilities of reportable segments | 154,337 | 132,553 |
| Unallocated amounts: | | |
| Corporate liabilities | 2,227 | 4,563 |
| Current tax liabilities | 3,180 | 2,831 |
| Deferred tax liabilities | 18,130 | 10,345 |
| Consolidated total liabilities | 177,874 | 150,292 |

*(iii) Geographical information*

Since all of the Group's revenue was generated in Hong Kong and all of the Group's identifiable assets and liabilities were located in Hong Kong, no geographical information is presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 July 2019

## 7. REVENUE AND SEGMENT INFORMATION (continued)

### Information about major customers

There is no external customer that contributed to more than 10% revenue of the Group's revenue for the year ended 31 July 2019 (2018: nil).

## 8. COST OF REVENUE

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Costs of heavy equipment and spare parts | 431,899 | 461,321 |
| (Reversal of allowance)/allowance for inventories, net | (184) | 1,391 |
| Impairment of property, plant and equipment | 659 | – |
| Declaration | 35 | 77 |
| Depreciation *(note 16)* | 20,073 | 10,060 |
| Freight and transportation | 8,188 | 9,995 |
| Repairs and maintenance | 9,718 | 9,629 |
| Staff costs | 17,599 | 15,494 |
| Subleasing fee | 3,672 | 675 |
| | 491,659 | 508,642 |

## 9. FINANCE COSTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Interest on borrowings | | |
| – Wholly repayable within five years | 3,929 | 2,534 |
| Finance leases charges | –[(i)] | 6 |
| | 3,929 | 2,540 |

(i) Represent the amount less than HK$1,000.

## 10. INCOME TAX EXPENSE

Income tax has been recognised in profit or loss as following:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Current tax – Hong Kong | | |
| Provision for the year | 352 | 7,228 |
| Under/(over)-provision in prior years | 87 | (10) |
| | 439 | 7,218 |
| Deferred tax *(note 23)* | 7,785 | 4,128 |
| | 8,224 | 11,346 |

The Company was incorporated in the Cayman Islands and TLMC Company Limited ("TLMC") was incorporated in the BVI. Both companies 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 8.25% or 16.5% on the estimated assessable profits for the year ended 31 July 2019.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Profit before tax | 46,775 | 66,293 |
| Tax at the Hong Kong Profits Tax rate of 8.25% or 16.5% | 7,553 | 10,773 |
| Tax effect of income that is not taxable | –(i) | (4) |
| Tax effect of expenses that are not deductible | 653 | 447 |
| Tax effect of temporary differences not recognised | (141) | (50) |
| Tax effect of utilisation of tax losses not previously recognised | (18) | (50) |
| Tax losses not recognised | 90 | 300 |
| Tax concession | – | (60) |
| Under/(over)-provision in prior years | 87 | (10) |
| Income tax expense | 8,224 | 11,346 |

(i) Represent the amount less than HK$1,000.

## 11. PROFIT FOR THE YEAR

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Auditor's remuneration | 650 | 600 |
| Allowance/(reversal of allowance) for trade receivables | 667 | (810) |
| (Reversal of allowance)/allowance for inventories (included in cost of inventories), net | (184) | 1,391 |
| Impairment of property, plant and equipment | 659 | – |
| Cost of inventories sold | 431,899 | 461,321 |
| Depreciation | 21,799 | 11,328 |
| Foreign exchange loss, net | 1,140 | 555 |
| Net gain on disposals of property, plant and equipment | (520) | (233) |
| Listing expenses | 1,950 | 1,200 |
| Operating lease charges in respect of: | | |
| – Director's quarter | 2,106 | 2,016 |
| – Office premises | 1,896 | 954 |
| | 4,002 | 2,970 |

## 12. EMPLOYEE BENEFITS EXPENSE

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Employee benefits expense excluding directors' emoluments: | | |
| Salaries, allowances and bonus | 21,897 | 18,991 |
| Retirement benefit scheme contributions | 780 | 672 |
| | 22,677 | 19,663 |

The five highest paid individuals in the Group during the year included four (2018: four) directors whose emoluments are reflected in the analysis presented in note 13. The emoluments of the remaining one (2018: one) individuals are set out below:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Salaries, allowances and bonus | 641 | 603 |
| Retirement benefit scheme contributions | 18 | 18 |
| | 659 | 621 |

## 12. EMPLOYEE BENEFITS EXPENSE (continued)

The emoluments fell within the following band:

| | Number of individuals 2019 | 2018 |
|---|---|---|
| Nil to HK$1,000,000 | 1 | 1 |

During the year, no emoluments were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The remunerations of each of the Company's directors were as follows:

| | Fees HK$'000 | Salaries, allowances and bonus HK$'000 | Quarter expenses HK$'000 | Retirement benefit scheme contributions HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Year ended 31 July 2019 | | | | | | |
| Executive director: | | | | | | |
| Mr. Chow | – | 2,620 | – | 18 | 351 | 2,989 |
| Ms. Liu Shuk Yee | – | 575 | – | 18 | – | 593 |
| Ms. Ng Wai Ying | – | 922 | – | 18 | – | 940 |
| | – | 4,117 | – | 54 | 351 | 4,522 |
| Non-executive director: | | | | | | |
| Ms. Cheng | – | 600 | 2,279 | 18 | – | 2,897 |
| Independent non-executive director: | | | | | | |
| Sir Kwok Siu Man KR | 180 | – | – | – | – | 180 |
| Mr. Law Tze Lun | 180 | – | – | – | – | 180 |
| Dr. Wong Man Hin Raymond | 180 | – | – | – | – | 180 |
| | 540 | – | – | – | – | 540 |
| | 540 | 4,717 | 2,279 | 72 | 351 | 7,959 |

## 13. BENEFITS AND INTERESTS OF DIRECTORS (continued)

### (a) Directors' emoluments (continued)

The remunerations of each of the Company's directors were as follows: (continued)

| | Fees HK$'000 | Salaries, allowances and bonus HK$'000 | Quarter expenses HK$'000 | Retirement benefit scheme contributions HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Year ended 31 July 2018 | | | | | | |
| Executive director: | | | | | | |
| Mr. Chow | – | 2,520 | – | 18 | – | 2,538 |
| Ms. Liu Shuk Yee | – | 591 | – | 18 | – | 609 |
| Ms. Ng Wai Ying | – | 871 | – | 18 | – | 889 |
| | – | 3,982 | – | 54 | – | 4,036 |
| Non-executive director: | | | | | | |
| Ms. Cheng | – | 600 | 2,053 | 18 | – | 2,671 |
| Independent non-executive director: | | | | | | |
| Sir Kwok Siu Man KR | 180 | – | – | – | – | 180 |
| Mr. Law Tze Lun | 180 | – | – | – | – | 180 |
| Dr. Wong Man Hin Raymond | 180 | – | – | – | – | 180 |
| | 540 | – | – | – | – | 540 |
| | 540 | 4,582 | 2,053 | 72 | – | 7,247 |

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

No director has waived or agreed to waive any emoluments during the year.

### (b) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and controlled entities with such directors

No loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors.

### (c) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 14. DIVIDENDS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 2019 interim dividend of HK0.5 cent (2018: nil) per ordinary share | 5,000 | – |

At a Board meeting of the Company on 9 March 2019, the Board declared 2019 interim dividend of HK0.5 cent per ordinary share for the six months ended 31 January 2019, amounting to HK$5,000,000 (2018: nil). The 2019 declared interim dividend of HK$5,000,000 was paid to the shareholders of the Company on 17 April 2019.

## 15. EARNINGS PER SHARE

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to owners of the Company | 38,551 | 54,947 |
| **Number of shares** | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 1,000,000 | 1,000,000 |

The calculation of basic earnings per share is based on the weighted average 1,000,000,000 ordinary shares in issue during the year ended 31 July 2019 (2018: 1,000,000,000 ordinary shares in issue during the year).

The diluted earnings per share is equal to the basic earnings per share as there was no dilutive potential ordinary share in issue during the years ended 31 July 2018 and 2019.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Machinery for lease HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 August 2017 | – | 814 | 99 | 41,281 | 2,579 | 666 | 4,356 | 49,795 |
| Additions | 13,135 | 66 | 43 | 131,407 | 128 | 73 | 1,130 | 145,982 |
| Disposals/write-off | – | (426) | (60) | – | (1,313) | (465) | (800) | (3,064) |
| Reclassification to inventories | – | – | – | (103,984) | – | – | – | (103,984) |
| At 31 July 2018 and 1 August 2018 | 13,135 | 454 | 82 | 68,704 | 1,394 | 274 | 4,686 | 88,729 |
| Additions | – | 695 | – | 147,138 | 80 | 121 | 2,538 | 150,572 |
| Disposals | – | – | – | - | – | – | (1,237) | (1,237) |
| Reclassification to inventories | – | – | – | (44,496) | – | – | – | (44,496) |
| At 31 July 2019 | 13,135 | 1,149 | 82 | 171,346 | 1,474 | 395 | 5,987 | 193,568 |
| **Accumulated depreciation and impairment** | | | | | | | | |
| At 1 August 2017 | – | 599 | 76 | 1,465 | 2,494 | 557 | 2,974 | 8,165 |
| Charge for the year | 36 | 153 | 15 | 10,060 | 39 | 41 | 984 | 11,328 |
| Disposal/write-off | – | (426) | (60) | – | (1,309) | (452) | (800) | (3,047) |
| Reclassification to inventories | – | – | – | (6,874) | – | – | – | (6,874) |
| At 31 July 2018 and 1 August 2018 | 36 | 326 | 31 | 4,651 | 1,224 | 146 | 3,158 | 9,572 |
| Charge for the year | 453 | 124 | 14 | 20,073 | 53 | 45 | 1,037 | 21,799 |
| Disposal/write-off | – | – | – | – | – | – | (1,090) | (1,090) |
| Reclassification from inventories | – | – | – | 146 | – | – | – | 146 |
| Impairment for the year | – | – | – | 659 | – | – | – | 659 |
| Reclassification to inventories | – | – | – | (6,027) | – | – | – | (6,027) |
| At 31 July 2019 | 489 | 450 | 45 | 19,502 | 1,277 | 191 | 3,105 | 25,059 |
| **Net book value** | | | | | | | | |
| At 31 July 2019 | 12,646 | 699 | 37 | 151,844 | 197 | 204 | 2,882 | 168,509 |
| At 31 July 2018 | 13,099 | 128 | 51 | 64,053 | 170 | 128 | 1,528 | 79,157 |

As at 31 July 2019, no motor vehicles held by the Group under finance leases (2018: HK$106,000).

## 17. INVENTORIES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Finished goods | 187,024 | 200,461 |
| Goods in transit | 773 | – |
| | 187,797 | 200,461 |
| Allowance for inventories | (1,061) | (1,391) |
| | 186,736 | 199,070 |

Reconciliation of allowance for inventories:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| At beginning of the year | 1,391 | – |
| Reclassification to property, plant and equipment | (146) | – |
| Reversal of allowance for inventories | (443) | – |
| Allowance for the year | 259 | 1,391 |
| At end of the year | 1,061 | 1,391 |

## 18. TRADE RECEIVABLES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Trade receivables | 93,020 | 96,211 |
| Allowance for doubtful debts | (3,451) | (2,784) |
| | 89,569 | 93,427 |

The Group's credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance or cash on delivery is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

## 18. TRADE RECEIVABLES (continued)

The ageing analysis of trade receivables, based on the delivery date, before provision for impairment, is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 0 to 90 days | 42,346 | 75,238 |
| 91 to 180 days | 38,547 | 10,292 |
| 181 to 365 days | 7,313 | 7,756 |
| Over 365 days | 4,814 | 2,925 |
| | 93,020 | 96,211 |

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 July 2019

| | Expected credit loss rate | Gross carrying amount excluding specific trade receivables<br>HK$'000 | Expected credit losses excluding specific trade receivables<br>HK$'000 | Gross carrying amount of specific trade receivables<br>HK$'000 | Loss allowance for specific trade receivables<br>HK$'000 | Total loss allowance<br>HK$'000 |
|---|---|---|---|---|---|---|
| Rental segment | | | | | | |
| Current | 0.6355% | 18,463 | (118) | – | – | (118) |
| 1 to 90 days | 1.1120% | 2,880 | (32) | – | – | (32) |
| 91 to 180 days | 3.4276% | 2,356 | (80) | – | – | (80) |
| 181 to 365 days | 8.5208% | 803 | (69) | – | – | (69) |
| Over 365 days | 23.2346% | 1,533 | (356) | – | – | (356) |
| Sub-total | | 26,035 | (655) | – | – | (655) |
| Sales segment | | | | | | |
| Current | 0.0101% | 31,241 | (3) | – | – | (3) |
| 1 to 90 days | 0.0188% | 24,736 | (4) | – | – | (4) |
| 91 to 180 days | 0.0364% | 2,738 | (1) | – | – | (1) |
| 181 to 365 days | 0.0564% | 5,468 | (3) | – | – | (3) |
| Over 365 days | 5.0237% | 18 | (1) | 2,784 | (2,784) | (2,785) |
| Sub-total | | 64,201 | (12) | 2,784 | (2,784) | (2,796) |
| Total | | 90,236 | (667) | 2,784 | (2,784) | (3,451) |

## 18. TRADE RECEIVABLES (continued)

The impairment of trade receivables included the amount of specific trade receivable which is considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amount in full.

Reconciliation of allowance for trade receivables:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At beginning of the year | 2,784 | 3,594 |
| Allowance/(reversal of allowance) for the year | 667 | (810) |
| At end of the year | 3,451 | 2,784 |

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| HKD | 89,569 | 93,077 |
| RMB | – | 347 |
| USD | – | 3 |
| | 89,569 | 93,427 |

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Prepayments** | | |
| Goods purchased | 29,904 | 63,568 |
| Listing expenses | 63 | 63 |
| Administrative and operating expenses | 171 | 314 |
| | 30,138 | 63,945 |
| **Deposits** | | |
| Deposits paid for property, plant and equipment | 447 | – |
| Rental deposits | 785 | 950 |
| Utility deposits | 105 | 92 |
| Trade deposits | 233 | 233 |
| Others | 45 | 91 |
| | 1,615 | 1,366 |
| **Other receivables** | | |
| Advance to a supplier | – | 156 |
| | 31,753 | 65,467 |
| Non-current portion | 447 | – |
| Current portion | 31,306 | 65,467 |
| | 31,753 | 65,467 |

## 20. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| EUR | 336 | – |
| USD | 1,767 | 231 |
| HKD | 64,583 | 44,982 |
| JPY | 254 | 40 |
| AUD | –(i) | –(i) |
| | 66,940 | 45,253 |

(i) Represent the amount less than HK$1,000.

## 21. TRADE AND OTHER PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade payables | 8,505 | 5,191 |
| Other payables and accruals | | |
| Accrued staff cost | 2,330 | 2,735 |
| Accrued listing expenses | 850 | 700 |
| Accrued administrative and operating expenses | 865 | 1,210 |
| | 4,045 | 4,645 |
| Contract liabilities | 9,919 | 18,021 |
| | 22,469 | 27,857 |

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Up to 90 days | 5,400 | 5,191 |
| 91 to 180 days | 1,144 | – |
| Over 180 days | 1,961 | – |
| | 8,505 | 5,191 |

The credit period ranges from 0 to 30 days.

The carrying amounts of the Group's trade and other payables and accruals and contract liabilities are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| EUR | 1 | 6 |
| USD | 1,127 | 1,815 |
| HKD | 19,924 | 24,742 |
| RMB | 1,417 | 794 |
| JPY | – | 500 |
| | 22,469 | 27,857 |

## 22. FINANCE LEASE PAYABLES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Within one year | – | 30 | – | 30 |
| In the second to fifth years, inclusive | – | – | – | – |
| | – | 30 | – | 30 |
| Less: Future finance charges | – | –[i] | – | N/A |
| Present value of lease obligations | – | 30 | – | 30 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | – | (30) |
| Amount due for settlement after 12 months | | | – | – |

[i] Represent the amount less than HK$1,000.

It is the Group's policy to lease certain of its motor vehicles under finance leases. The lease term is three years and beared a flat rate of 1.49% per annum. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicles at nominal prices.

All finance lease payables are denominated in HKD.

## 23. DEFERRED TAX

The following are deferred tax recognised by the Group.

| | Accelerated tax depreciation HK$'000 | Allowance for inventories HK$'000 | Tax loss HK$'000 | Allowance for trade receivables HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 August 2017 | 6,550 | – | (333) | – | 6,217 |
| Charge/(credit) to profit or loss for the year *(note 10)* | 4,024 | (229) | 333 | – | 4,128 |
| At 31 July 2018 and 1 August 2018 | 10,574 | (229) | – | – | 10,345 |
| Charge/(credit) to profit or loss for the year *(note 10)* | 11,801 | 54 | (3,960) | (110) | 7,785 |
| At 31 July 2019 | 22,375 | (175) | (3,960) | (110) | 18,130 |

The following is the analysis of the deferred tax balances for consolidated statement of financial position purposes:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Deferred tax liabilities | 22,375 | 10,574 |
| Deferred tax assets | (4,245) | (229) |
| | 18,130 | 10,345 |

At the end of the reporting period the Group has unused tax losses of approximately HK$5,113,000 (2018: HK$4,675,000) available for offset against future profits. No deferred tax asset has been recognised in respect of approximately HK$5,113,000 (2018: HK$4,675,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

## 24. BANK BORROWINGS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Import loans | 134,095 | 109,229 |

*Note:*

(i) The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

| | JPY<br>HK$'000 | HKD<br>HK$'000 | USD<br>HK$'000 | EUR<br>HK$'000 | GBP<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| **At 31 July 2019** | | | | | | |
| Import loans | 2,411 | 129,395 | 2,289 | – | – | 134,095 |
| At 31 July 2018 | | | | | | |
| Import loans | 61,618 | 24,632 | 12,753 | 8,870 | 1,356 | 109,229 |

(ii) Import loans of approximately HK$134,095,000 as at 31 July 2019 were secured by the corporate guarantee executed by the Company.

(iii) The average interest rates per annum at the end of the reporting period were as follows:

| | 2019 | 2018 |
|---|---|---|
| Import loans | 2.11% to 5.01% | 2.11% to 5.87% |

(iv) The Group's bank borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

## 25. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | HK$'000 |
| **Authorised:** | | |
| Ordinary shares of HK$0.01 each | | |
| As at 31 July 2017, 31 July 2018, 1 August 2018 and 31 July 2019 | 10,000,000,000 | 100,000 |
| **Issued and fully paid:** | | |
| Ordinary shares of HK$0.01 each | | |
| As at 31 July 2017, 31 July 2018, 1 August 2018 and 31 July 2019 | 1,000,000,000 | 10,000 |

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the Shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising finance lease payables and borrowings) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios during the year was 37% (2018: 33%). The increase in the gearing ratio of the Group is primarily due to the increase in the balance of bank borrowings as at 31 July 2019.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing for the years ended 31 July 2019 and 2018.

The externally imposed capital requirement for the Group are: (i) in order to maintain its listing on the Stock Exchange, it has to have a public float of at least 25% of the shares. Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required by the Listing Rules and (ii) to meet financial covenants attached to the bank borrowings.

## 26. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

| | Note | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in a subsidiary | | 60,000 | –[i] |
| **Current assets** | | | |
| Prepayments | | 234 | 249 |
| Amounts due from subsidiaries | | 34,817 | 92,477 |
| Bank and cash balances | | 1,991 | 3,461 |
| | | 37,042 | 96,187 |
| **Current liabilities** | | | |
| Accruals | | 1,106 | 1,437 |
| Amount due to a subsidiary | | – | 1,462 |
| | | 1,106 | 2,899 |
| Net current assets | | 35,936 | 93,288 |
| NET ASSETS | | 95,936 | 93,288 |
| **Capital and reserves** | | | |
| Share capital | | 10,000 | 10,000 |
| Reserves | 26(b) | 85,936 | 83,288 |
| TOTAL EQUITY | | 95,936 | 93,288 |

[i] Represent the amount less than HK$1,000.

Approved by the Board of Directors on 10 October 2019 and are signed on its behalf by:

| Mr. Chow Luen Fat | Ms. Ng Wai Ying |
|---|---|
| *Director* | *Director* |

## 26. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

### (b) Reserve movement of the Company

| | Share Premium HK$'000 *(note 27(b)(i))* | Merger reserve HK$'000 *(note 27(b)(ii))* | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 August 2017 | 92,661 | (380) | (4,721) | 87,560 |
| Profit and total comprehensive income for the year | – | – | (4,272) | (4,272) |
| At 31 July 2018 and 1 August 2018 | 92,661 | (380) | (8,993) | 83,288 |
| Profit and total comprehensive income for the year | – | – | 7,648 | 7,648 |
| Payment of 2019 interim dividend *(note 14)* | – | – | (5,000) | (5,000) |
| At 31 July 2019 | 92,661 | (380) | (6,345) | 85,936 |

## 27. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Nature and purpose of reserves

*(i) Share premium*

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

*(ii) Merger reserve*

The merger reserve of the Company represents the difference between the cost of investment in TLMC pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The merger reserve of the Group represents the difference between the nominal value of shares of Tak Lee Machinery Company Limited ("Tak Lee Hong Kong"), Econsmart Limited ("Econsmart") and Success Sky Corporation Limited ("Success Sky") acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

## 28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

(i) Property, plant and equipment of approximately HK$147,138,000 were reclassified from inventories held for sale at the end of the reporting period.

(ii) Property, plant and equipment of approximately HK$38,469,000 were reclassified to inventories held for sale at the end of the reporting period.

(iii) Purchases of inventories of approximately HK$63,568,000 during the year ended 31 July 2019 were settled by offsetting prepayment brought forward from the year ended 31 July 2018.

## 28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| | 1 August 2018 HK$'000 | Cash flows HK$'000 | Finance costs recognised HK$'000 *(note 9)* | Foreign exchange HK$'000 | 31 July 2019 HK$'000 |
| Finance lease payables *(note 22)* | 30 | (30) | –[i] | – | – |
| Import loans *(note 24)* | 109,229 | 16,294 | (3,929) | 12,501 | 134,095 |
| | 109,259 | 16,264 | (3,929) | 12,501 | 134,095 |

(i) Represent the amount less than HK$1,000.

## 29. CONTINGENT LIABILITIES

At 31 July 2019, the Group did not have any other significant contingent liabilities.

## 30. LEASE COMMITMENTS

### The Group as lessee

At 31 July 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Within one year | 2,760 | 2,143 |
| In the second to fifth years inclusive | 1,773 | 946 |
| | 4,533 | 3,089 |

Operating lease payments represent rentals payable by the Group for its offices and director's quarter. Leases are negotiated for terms ranging from 2 to 3 years (2018: 2 to 3 years) and rentals are fixed over the lease terms and do not include contingent rentals.

## 30. LEASE COMMITMENTS (continued)

### The Group as lessor

At 31 July 2019, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Within one year | 14,173 | 2,280 |
| In the second to fifth years inclusive | – | 325 |
| | 14,173 | 2,605 |

The Group leases machineries to its customers under operating lease arrangements which normally run for an initial period of minimum one month, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the respective tenants. Rentals are fixed over the lease terms and do not include contingent rentals.

## 31. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Property, plant and equipment | 1,625 | – |

## 32. RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

Compensation of key management personnel of the Group was as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Salaries, allowances and bonus | 1,470 | 1,149 |
| Retirement benefit scheme contributions | 52 | 47 |
| | 1,522 | 1,196 |

Further details of the emoluments of directors are included in note 13.

## 33. INVESTMENTS IN SUBSIDIARIES

Particulars of subsidiaries as at 31 July 2019 are as follows:

| Name of subsidiaries | Date and place of incorporation/ establishment | Particular of issued share capital | Equity interests attributable to the Group | Principal activities |
|---|---|---|---|---|
| Directly held by the Company | | | | |
| TLMC | 4 January 2016 BVI | USD1 | 100% | Investment holding |
| Indirectly held by the Company | | | | |
| Tak Lee Hong Kong | 5 March 2001 Hong Kong | 3,000,000 ordinary shares | 100% | Trading of heavy equipment and spare parts, leasing of heavy equipment and provision of maintenance and ancillary services |
| Econsmart | 19 September 2001 Hong Kong | 2 ordinary shares | 100% | Provision of motor vehicles services |
| Success Sky | 7 October 2010 Hong Kong | 2 ordinary shares | 100% | Provision of maintenance and ancillary services |
| Creative Day Limited | 13 October 2017 Hong Kong | 1 ordinary share | 100% | Dormant |

# FIVE YEARS FINANCIAL SUMMARY

For the year ended 31 July 2019

| | For the year ended 31 July | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| Revenue | 301,081 | 320,490 | 292,793 | 599,819 | 572,049 |
| Profit before tax | 37,682 | 28,819 | 16,833 | 66,293 | 46,775 |
| Income tax expense | (6,470) | (5,303) | (4,732) | (11,346) | (8,224) |
| Profit and total comprehensive income for the year | 31,212 | 23,516 | 12,101 | 54,947 | 38,551 |

| | At 31 July | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 274,841 | 204,735 | 363,922 | 482,374 | 543,507 |
| Total liabilities | (76,089) | (41,982) | (86,787) | (150,292) | (177,874) |
| Net assets | 198,752 | 162,753 | 277,135 | 332,082 | 365,633 |