TLMC

TAK LEE MACHINERY HOLDINGS LIMITED
德 利 機 械 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8142

2017-2018

INTERIM REPORT

RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018

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Interim Results for the Six Months ended 31 January 2018

The board of Directors (the "**Board**") is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 31 January 2018, together with the corresponding comparative figures of 2017. The information should be read in conjunction with the prospectus of the Company dated 17 July 2017 (the "**Prospectus**"). Capitalised terms used in this report shall have the same respective meanings as those defined in the Prospectus unless otherwise stated.

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months and six months ended 31 January 2018

		Three months ended 31 January		Six months ended 31 January	
	Notes	**2018** *HK$'000* **(unaudited)**	2017 *HK$'000* (unaudited)	**2018** *HK$'000* **(unaudited)**	2017 *HK$'000* (unaudited)
Revenue	3	**112,198**	67,485	**203,080**	130,766
Cost of sales		**(93,498)**	(57,931)	**(172,083)**	(108,601)
Gross profit		**18,700**	9,554	**30,997**	22,165
Other income and net gains		**1,101**	1,488	**1,492**	568
Administrative and other operating expenses		**(6,097)**	(5,118)	**(10,771)**	(12,401)
Profit from operations		**13,704**	5,924	**21,718**	10,332
Finance costs		**(621)**	(259)	**(1,106)**	(463)
Profit before tax		**13,083**	5,665	**20,612**	9,869
Income tax expense	4	**(2,238)**	(1,206)	**(3,504)**	(2,458)
Profit and total comprehensive income for the period attributable to owners of the Company	5	**10,845**	4,459	**17,108**	7,411
Earnings per share – Basic and diluted (HK cents per share)	7	**1.08**	0.59	**1.71**	0.99

Interim Condensed Consolidated Statement of Financial Position

As at 31 January 2018

	Notes	At 31 January 2018 HK$'000 (unaudited)	At 31 July 2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	8	54,363	41,630
Current assets			
Inventories		218,880	128,515
Trade receivables	9	45,429	43,511
Prepayments, deposits and other receivables		26,799	24,044
Tax prepaid		3,403	–
Pledged bank deposit		–	10,000
Bank and cash balances		59,001	116,222
		353,512	322,292
Current liabilities			
Trade payables	10	8,915	6,565
Other payables and accruals		1,081	5,018
Deposits receipt in advance		14,525	3,234
Finance lease payables	11	209	356
Current tax liabilities		144	382
Deferred tax liabilities		8,593	6,217
Bank borrowings		80,165	64,985
		113,632	86,757
Net current assets		239,880	235,535
Total assets less current liabilities		294,243	277,165
Non-current liabilities			
Finance lease payables		–	30
NET ASSETS		294,243	277,135
Capital and reserves			
Share capital		10,000	10,000
Retained earnings		284,243	267,135
TOTAL EQUITY		294,243	277,135

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 January 2018

	Share capital *HK$'000*	Share premium *HK$'000*	Merger reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 August 2017 (audited)	10,000	92,661	2,620	171,854	277,135
Profit and total comprehensive income for the period	–	–	–	17,108	17,108
At 31 January 2018 (unaudited)	**10,000**	**92,661**	**2,620**	**188,962**	**294,243**
At 1 August 2016 (audited)	3,000	–	–	159,753	162,753
Profit and total comprehensive income for the period	–	–	–	7,411	7,411
At 31 January 2017 (unaudited)	3,000	–	–	167,164	170,164

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 31 January 2018

	Six months ended 31 January	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash used in operating activities	**(81,657)**	(22,187)
Net cash generated from investing activities	**9,433**	434
Net cash generated from financing activities	**15,145**	20,694
Effect of foreign exchange rate changes	**(142)**	(680)
Net decrease in cash and cash equivalents	**(57,221)**	(1,739)
Cash and cash equivalents at beginning of the period	**116,222**	35,470
Cash and cash equivalents at end of the period, represented by bank and cash balances	**59,001**	33,731

Notes to the Interim Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands on 11 December 2015. The issued shares of the Company were initially listed on GEM (formerly known as "the Growth Enterprise Market of the Stock Exchange") (the "**Listing**") on 27 July 2017. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is D.D.111, Lot No. 117, Sheung Che Village, Pat Heung, Yuen Long, New Territories, Hong Kong.

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

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

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

2. BASIS OF PRESENTATION AND PREPARATION

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

All intra-group transactions and balances have been eliminated.

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 31 January 2018 (the "**Interim Condensed Consolidated Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of the GEM Listing Rules.

These unaudited Interim Condensed Consolidated Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 July 2017. The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements for the year ended 31 July 2017.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (the "**HKFRSs**"). The adoption of the new and amended HKFRSs which are relevant to the Group's operations and effective for its accounting period beginning 1 August 2017 has no significant changes on the Group's accounting policies as well as the presentation, the reported results and the financial position of the Group for the current or prior accounting periods.

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

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

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

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

The Interim Condensed Consolidated Financial Statements have not been audited by the Company's independent auditor, but have been reviewed by the audit committee of the Board (the "**Audit Committee**").

The Interim Condensed Consolidated Financial Statements are presented in Hong Kong dollars ("**HK$**") which is also the functional currency of the Group, and all values are rounded to the nearest thousands ("**HK$'000**"), except when otherwise indicated.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the income received and receivable from the sales of heavy equipment and spare parts, lease of heavy equipment as well as maintenance and ancillary services for the six months ended 31 January 2018 and is summarised as follows:

	Three months ended 31 January		Six months ended 31 January	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Sales of heavy equipment and spare parts	**97,592**	64,257	**177,371**	125,297
Lease of heavy equipment	**12,537**	2,650	**21,814**	4,344
Maintenance and ancillary services	**2,069**	578	**3,895**	1,125
Total	**112,198**	67,485	**203,080**	130,766

Segment information

Management has determined the operating segments based on the reports reviewed by the Directors, the chief operating decision-makers, that are used to making 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 interim condensed 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.

(i) Information about reportable segment profit or loss:

	Sales of heavy equipment and spare parts HK$'000 (unaudited)	Lease of heavy equipment HK$'000 (unaudited)	Maintenance and ancillary services HK$'000 (unaudited)	Unallocated HK$'000 (unaudited)	Total HK$'000 (unaudited)
For the six months ended 31 January 2018					
External revenue	**177,371**	**21,814**	**3,895**	**–**	**203,080**
Segment results	**11,579**	**11,995**	**486**	**(3,448)**	**20,612**
For the six months ended 31 January 2017					
External revenue	125,297	4,344	1,125	–	130,766
Segment results	14,211	2,219	237	(6,798)	9,869

(ii) 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.

4. INCOME TAX EXPENSE

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

	Three months ended 31 January		Six months ended 31 January	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Current tax – Hong Kong				
Provision for the year	**492**	124	**1,128**	1,458
Under-provision in prior years	**–**	89	**–**	89
	492	213	**1,128**	1,547
Deferred tax	**1,746**	993	**2,376**	911
	2,238	1,206	**3,504**	2,458

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

Hong Kong profits tax has been provided at a rate of 16.5% (six months ended 31 January 2017: 16.5%) on the estimated assessable profits for the six months ended 31 January 2018.

5. PROFIT FOR THE PERIOD

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

	Three months ended 31 January		Six months ended 31 January	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Auditor's remuneration	**125**	122	**250**	222
Cost of inventories sold	**81,089**	53,311	**149,202**	98,972
Depreciation	**3,097**	1,979	**5,181**	1,418
Foreign exchange (gain)/loss, net	**533**	(1,352)	**555**	(379)
Net gain on disposals of property, plant and equipment	**–**	(28)	**(250)**	(28)
Listing expenses	**–**	985	**–**	4,274
Operating lease charges in respect of:				
– Director's quarters	**504**	450	**1,008**	900
– Office premises	**198**	198	**396**	396
	702	648	**1,404**	1,296
Reversal of allowance for trade receivables	**(810)**	–	**(810)**	–
Staff costs (including Directors' emoluments)				
– Salaries, allowances and bonus	**6,352**	3,300	**11,733**	6,011
– Retirement benefit scheme contributions	**192**	89	**374**	177
– Quarters expenses	**510**	457	**1,027**	918
	7,054	3,846	**13,134**	7,106

6. DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 January 2018 (six months ended 31 January 2017: Nil).

7. EARNINGS PER SHARE

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

	Three months ended 31 January		Six months ended 31 January	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Earnings:				
Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	**10,845**	4,459	**17,108**	7,411
	'000	*'000*	***'000***	*'000*
Number of shares:				
Weighted average number of ordinary shares for profit attributable to owners of the Company for the purpose of calculating basic earnings per share	**1,000,000**	750,000	**1,000,000**	750,000

Note:

For the six months ended 31 January 2017, the number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue had been completed on 1 August 2016 but excluding any shares issued pursuant to the Share Offer.

Diluted earnings per share was the same as the basic earnings per share for the six months ended 31 January 2018 and 2017 as there were no dilutive potential ordinary shares in issue.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2018, the Group acquired items of property, plant and equipment with cost of approximately HK$941,000 (six months ended 31 January 2017: HK$6,000). Items of property, plant and equipment with a net book value of approximately HK$nil (six months ended 31 January 2017: HK$412,000) were disposed of during the six months ended 31 January 2018, resulting in a net gain on disposal of approximately HK$250,000 (six months ended 31 January 2017: HK$28,000).

During the six months ended 31 January 2018, the Group reclassified some of the inventories to property, plant and equipment as machinery for lease when the relevant heavy equipment was leased to our Group's customers. The value of heavy equipment reclassified amounted to approximately HK$62,740,000 (six months ended 31 January 2017: HK$18,848,000).

During the six months ended 31 January 2018, the Group reclassified some of the inventories from machinery for lease at their carrying amounts of approximately HK$45,767,000 (six months ended 31 January 2017: HK$12,376,000) when the machinery for lease ceased to be leased and became held for sale.

9. TRADE RECEIVABLES

	At 31 January 2018	At 31 July 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**48,213**	47,105
Allowance for doubtful debts	**(2,784)**	(3,594)
	45,429	43,511

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 ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	At 31 January 2018 HK$'000 (unaudited)	At 31 July 2017 HK$'000 (audited)
0 to 90 days	34,257	36,224
91 to 180 days	6,609	3,377
181 to 365 days	4,491	1,960
Over 1 year	72	1,950
	45,429	43,511

As at 31 January 2018, trade receivables of HK$24,186,000 (31 July 2017: HK$21,555,000) were past due but not impaired. These relate to trade receivables from a number of independent customers of whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	At 31 January 2018 HK$'000 (unaudited)	At 31 July 2017 HK$'000 (audited)
Up to 3 months	18,300	18,330
Over 3 to 6 months	3,814	462
Over 6 to 12 months	2,070	2,456
Over 1 year	2	307
	24,186	21,555

10. TRADE PAYABLES

The credit period on trade payable ranges from 0 to 30 days.

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

	At 31 January 2018 HK$'000 (unaudited)	At 31 July 2017 HK$'000 (audited)
0 to 90 days	8,908	6,565
91 to 180 days	7	–
	8,915	6,565

11. FINANCE LEASE PAYABLES

As at 31 January 2018, the Group had obligations under finance leases payable as follows:

	At 31 January 2018 HK$'000 (unaudited)	At 31 July 2017 HK$'000 (audited)
Total minimum lease payments		
Within one year	211	362
In the second to fifth years, inclusive	–	30
	211	392
Less: Future finance charges	(2)	(6)
Present value of lease obligations	209	386
Present value of minimum lease payments		
Within one year	209	356
In the second to fifth years, inclusive	–	30
	209	386

It is the Group's policy to lease certain of its motor vehicles under finance leases.

Management Discussion and Analysis

Business Review and Outlook

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

The Group's profit attributable to owners of the Company for the six months ended 31 January 2018 increased by 130.8% to approximately HK$17.1 million. Pre-tax profit contribution from leasing segment increased by 440.6% to approximately HK$12.0 million for the six months ended 31 January 2018, whilst pre-tax profit contribution from sales segment decreased by 22.7% to approximately HK$11.6 million for the six months ended 31 January 2018.

The increase in the profit contribution in the leasing segment was mainly attributable to the expansion of the leasing business of the Group and the strong market demand for the heavy equipment for the six months ended 31 January 2018.

Despite the increase in revenue from the sales of heavy equipment and spare parts by 41.6% for the six months ended 31 January 2018, the profit contribution from the sales business decreased by 22.7% as a result of the increase in proportion of sale of used heavy vehicles with relatively lower gross profit margin compared to new heavy vehicles.

Looking forward, the Group is confident about the outlook and the prospects for sales and leasing of heavy equipment in light of the upswing in the number of infrastructure projects and the stringency of the new environmental regulatory regime implemented in Hong Kong. In order to sustain the business growth of the Group, the Group will continue to expand the leasing service and the maintenance and ancillary services as the long term growth prospect. To embrace opportunities, the Group is committed to the diversification of supplier base and product offering. For instance, during the six months ended 31 January 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. 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 recorded a significant increase in revenue for the six months ended 31 January 2018, by approximately 55.3% from approximately HK$130.8 million for the six months ended 31 January 2017 to approximately HK$203.1 million. The increase was mainly attributable to the increases in sales of heavy equipment and spare parts of approximately HK$52.1 million and leasing income of approximately HK$17.5 million.

Cost of Sales

The Group's cost of sales amounted to approximately HK$172.1 million for the six months ended 31 January 2018, representing an increase of approximately 58.5% (six months ended 31 January 2017: approximately HK$108.6 million). Cost of sales mainly comprised cost of machinery, equipment and parts, depreciation, freight and transportation costs, repairs and maintenance costs, and staff costs for operators, technicians and inspectors. The increase was mainly driven by the increase in revenue for the six months ended 31 January 2018 as well as the associated increase in staff costs of operators and technicians.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by approximately 39.6% from approximately HK$22.2 million for the six months ended 31 January 2017 to approximately HK$31.0 million for the six months ended 31 January 2018, with gross profit margin at approximately 15.3% (six months ended 31 January 2017: approximately 17.0%). The increase in gross profit was mainly due to the increase in gross profit of leasing segment by approximately HK$10.4 million with gross profit margin increased from approximately 55.7% for the six months ended 31 January 2017 to approximately 58.7% for the six months ended 31 January 2018, while the decrease in gross profit of sales of heavy equipment and spare parts by approximately HK$1.9 million for the six months ended 31 January 2018 with gross profit margin decreased from approximately 15.5% for the six months ended 31 January 2017 to approximately 9.9% for the six months ended 31 January 2018 led to the decrease in overall gross profit margin.

Other Income

The Group recognised other incomes of approximately HK$0.6 million and approximately HK$1.5 million for the six months ended 31 January 2017 and 2018, respectively. The increase was mainly due to the gain on disposal of a motor vehicle of approximately HK$0.3 million and the reversal of allowance for trade receivables of approximately HK$0.8 million.

Administrative and Other Operating Expenses

The administrative expenses decreased by approximately HK$1.6 million or 12.9% from approximately HK$12.4 million for the six months ended 31 January 2017 to approximately HK$10.8 million for the six months ended 31 January 2018. The decrease in administrative expenses was mainly attributable to the absence of non-recurring listing expenses of approximately HK$4.3 million for the six months ended 31 January 2017, which was partially offset by the increases in staff costs (including Directors' emoluments) of approximately HK$1.4 million and net foreign exchange loss of HK$0.6 million for the six months ended 31 January 2018.

Finance Costs

The finance costs increased by approximately HK$0.6 million or 120% from approximately HK$0.5 million for the six months ended 31 January 2017 to approximately HK$1.1 million for the six months ended 31 January 2018. The increase was in line with the increase in total debt (including finance lease payables) for the six months ended 31 January 2018 as compared to those of the same period last year.

Income Tax Expense

The income tax expense increased by approximately HK$1.0 million or 40% from approximately HK$2.5 million for the six months ended 31 January 2017 to approximately HK$3.5 million for the six months ended 31 January 2018 because of the increase in profit before tax excluding the tax non-deductible listing expenses.

Profit and Total Comprehensive Income for the Period

As a result of the foregoing, the Group's profit and total comprehensive income for the period increased by approximately 131.1% from approximately HK$7.4 million for the six months ended 31 January 2017 to approximately HK$17.1 million for the six months ended 31 January 2018. The net profit margin of the Group increased to 8.4% for the six months ended 31 January 2018 as compared to 5.7% for the six months ended 31 January 2017.

Liquidity and Capital Resources

The Group financed its operations primarily with cash flow from operations, bank borrowings and net proceeds from the Listing. As at 31 January 2018, the Group had bank and cash balances of approximately HK$59.0 million (31 July 2017: approximately HK$116.2 million). The decrease in cash and cash equivalents was mainly due to the increase in purchase of property, plant and equipment and the ready stock during the period.

As at 31 January 2018, the Group had bank borrowings of approximately HK$80.2 million (31 July 2017: approximately HK$65.0 million) and finance lease payables of approximately HK$0.2 million (31 July 2017: HK$0.4 million). Its gearing ratio, calculated based on the sum of the bank borrowings and finance lease payables divided by the total equity at the end of the period/year and multiplied by 100%, was approximately 27.3% as at 31 January 2018 (31 July 2017: approximately 23.6%). The Group's financial position is sound and strong. With available bank balances and cash and banking facilities, the Group has sufficient liquidity to satisfy the funding requirements.

Capital Structure

The issued shares of the Company were listed on GEM 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 January 2018, 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.

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 heavy equipment. As at 31 January 2018, the Group's operating lease commitments as lessee and lessor amounted to approximately HK2.6 million (31 July 2017: HK$3.6 million) and HK$3.1 million (31 July 2017: HK$5.5 million), respectively.

As at 31 January 2018, the Group's capital commitments contracted for but not yet incurred on purchase of property, plant and equipment amounted to HK$0.2 million (31 July 2017: Nil). Other than that, the Group did not have any material capital commitments as at 31 January 2018.

Foreign Exchange Exposure

The Group has certain exposure to foreign currency risk as most of the business transactions, assets and liabilities are principally denominated in HK$, Japanese Yen ("**JPY**"), Renminbi ("**RMB**"), Euro ("**EUR**") and US dollar ("**USD**"). There is a currency difference between revenue receipts (which are denominated in HK$) and some of the payments for purchases (which are denominated in JPY, EUR, RMB and USD) of the Group. 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.

Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Ventures, and Plans for Material Investments or Capital Assets

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures for the six months ended 31 January 2018. Save for the business plan as disclosed in the Prospectus, there was no other plan for material investments or capital assets as at 31 January 2018.

Significant Investments

As at 31 January 2018, the Group did not hold any significant investments (31 July 2017: nil).

Pledge of Assets and Contingent Liabilities

As at 31 January 2018, the Group had no charges on the Group's assets for its bank borrowings (31 July 2017: HK$10.0 million). Finance lease was secured by a legal charge over a motor vehicle of the Group.

As at 31 January 2018, the Group did not have any material contingent liabilities (31 July 2017: nil).

Employees and Remuneration Policies

As at 31 January 2018, the Group employed 47 (31 July 2017: 48) full-time employees. The total staff costs (including Directors' remuneration) were approximately HK$13.1 million for the six months ended 31 January 2018 (six months ended 31 January 2017: approximately HK$7.1 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 and the remuneration package includes salary, allowances and bonus; and the Group also makes contributions to the mandatory provident fund schemes. 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 Company and its subsidiaries.

Interests of Directors and Chief Executive

As at 31 January 2018, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were set out as follows:

Interests in the Company

Long position in the shares of the Company

Name of Directors	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
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, which is beneficially owned as to 50% by Mr. Chow, the chairman of the Board (the "**Chairman**"), the chief executive officer and an executive Director and 50% by Ms. Cheng, the non-executive Director. Mr. Chow and Ms. Cheng are spouses. Under the SFO, each of Mr. Chow and Ms. Cheng is deemed to be interested in the same number of shares held by Generous Way.

Interests in Associated Corporation of the Company

Long position in the shares of the associated corporation

Name of Directors	Name of associated corporation	Nature of interest	Number of shares held	Percentage of shareholding
Mr. Chow	Generous Way	Beneficial owner	50	50%
Ms. Cheng	Generous Way	Beneficial owner	50	50%

Save as disclosed above, as at 31 January 2018, none of the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Interests of Substantial Shareholders

As at 31 January 2018, so far as the Directors are aware, the following entity (other than the Directors and the chief executive of the Company) had interests or short position in the shares or underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in the shares of the Company

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

Save as disclosed above, as at 31 January 2018, the Directors were not aware of any persons who/entities which had interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Corporate Governance Practices

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

Save for the deviation from code provision A.2.1 as mentioned above, the Board is satisfied that the Company had complied with all the code provisions of the CG Code during the six months ended 31 January 2018.

Share Option Scheme

The share option scheme of the Company (the "**Share Option Scheme**") is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Share Option Scheme was adopted on 30 June 2017. No share options were granted or agreed to be granted under the Share Option Scheme from the date of its adoption to 31 January 2018 and up to the date of this report.

Interests in Competing Business

During the six months ended 31 January 2018, the Directors were not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

Interests of Compliance Adviser

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Southwest Securities (HK) Capital Limited ("**Southwest Securities**") to be its compliance adviser. As at 31 January 2018, as notified by Southwest Securities, save for the compliance adviser agreement entered into between the Company and Southwest Securities dated 4 July 2017, neither Southwest Securities nor any of its directors, employees or close associates had any interest in the securities of the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 31 January 2018.

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the Listing Date to 31 January 2018 is set out below:

Business objectives	Actual progress
Strengthen supplier base and expand product portfolio in anticipation of the changing market conditions	During the six months ended 31 January 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. The Group has used approximately HK$7.4 million to purchase 8 units of heavy vehicles as ready stock.
Enhance and expand leasing and maintenance and ancillary services	During the six months ended 31 January 2018, the Group has used approximately HK$22.5 million to purchase 22 units of heavy equipment to expand the leasing fleet.
Expand and improve workshop and facilities	The Group is in the progress of searching for a new site to accommodate for our planned expansion. The Group had not identified any suitable site as at the date of this report.
Accelerate the development of own-brand earthmoving equipment	
– For enhancement and improvement of the heavy equipment	– The Group has continued to communicate the customers requirements regarding the *TLMC* brand earthmoving attachment with its manufacturer. The Group has used approximately HK$0.4 million to enhance and improve the heavy equipment.
– For the marketing and promotion of our brand through advertisement and public relations activities	– The Group has used approximately HK$0.1 million to post advertisements in construction news magazine.
Recruiting talents to capture more business opportunities	The Group has used approximately HK$0.6 million to recruit additional technicians.

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 intends to apply the net proceeds raised from the Share Offer 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 our existing facilities; (iii) approximately 5.3% of the net proceeds or approximately HK$5.2 million for the development of our TLMC brand heavy equipment; (iv) approximately 5.4% of the net proceeds or approximately HK$5.3 million for the recruitment and training of our 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 January 2018 *HK$ (million)*	**Approximate actual amount utilised as at 31 January 2018** *HK$ (million)*	**Unutilised amount out of the proposed amount as at 31 January 2018** *HK$ (million)*
Procurement of heavy equipment	29.9	29.9	–
Enhancement and expansion of existing facilities	–	–	–
Development of *TLMC* brand heavy equipment	0.8	0.5	0.3
Recruitment and training of staff	0.8	0.6	0.2

As at the date of this report, the Directors do not anticipate any change to the plan as to the use of proceeds.

As at the date of this report, the unutilised proceeds have been placed with banks in Hong Kong.

Securities Transactions by Directors

The Company has adopted the required standard of dealings (the "**Required Standard of Dealings**") as contained in Rules 5.48 to 5.67 of the GEM Listing Rules as its required standard for Directors' dealing in the securities of the Company. Following a specific enquiry made by the Company on each of the Directors, each Director has confirmed that he/she had complied with the Required Standard of Dealings during the six months ended 31 January 2018.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties. All the risks relating to the Group's business have been set out in the section headed "Risk Factors" in the Prospectus.

Important Events after the Reporting Period

The Board is not aware of any important event affecting the Group, which have occurred subsequent to 31 January 2018 and up to the date of this report.

Audit Committee

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

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

Hong Kong, 8 March 2018

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