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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 JULY 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (collectively the "**Directors**" or individually a "**Director**") of Tak Lee Machinery Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

FINANCIAL HIGHLIGHTS

- Revenue of the Group reached approximately HK$599.8 million for the year ended 31 July 2018 ("**FY2018**"), or increased by approximately 104.8% from approximately HK$292.8 million for the year ended 31 July 2017 ("**FY2017**"), mainly attributable to the strong performance in the sales business of heavy equipment and the expansion of the leasing business of the Group.

- Gross profit of the Group was approximately HK$91.2 million for FY2018, representing an increase of approximately 93.6% as compared with the gross profit of approximately HK$47.1 million for FY2017.

- The Group's profit and total comprehensive income increased by approximately 353.7% from approximately HK$12.1 million for FY2017 to approximately HK$54.9 million for FY2018. Excluding the non-recurring listing expenses, the Group would have recorded an increase in profit attributable to owners of the Company by 146.1%.

- Earnings per share attributable to owners of the Company was approximately HK5.49 cents for FY2018 (FY2017: approximately HK1.61 cents).

- The board of Directors (the "**Board**") has resolved not to recommend any final dividend for FY2018.

The Board is pleased to announce the audited consolidated results of the Group for FY2018 together with the audited comparative figures for FY2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 July 2018

	Note	**2018** *HK$'000*	2017 *HK$'000*
Revenue	4	**599,819**	292,793
Cost of sales		**(508,642)**	(245,727)
Gross profit		**91,177**	47,066
Other income and net gains	4	**1,972**	1,004
Administrative and other operating expenses		**(24,316)**	(29,989)
Profit from operations		**68,833**	18,081
Finance costs	5	**(2,540)**	(1,248)
Profit before tax		**66,293**	16,833
Income tax expense	6	**(11,346)**	(4,732)
Profit and total comprehensive income for the year attributable to owners of the Company	7	**54,947**	12,101
Earnings per share			
– Basic and diluted (HK cents per share)	9	**5.49**	1.61

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**79,157**	41,630
Current assets			
Inventories		**199,070**	128,515
Trade receivables	10	**93,427**	43,511
Prepayments, deposits and other receivables		**65,467**	24,044
Pledged bank deposit		**–**	10,000
Bank and cash balances		**45,253**	116,222
		403,217	322,292
Current liabilities			
Trade payables	11	**5,191**	6,565
Other payables and accruals		**4,645**	5,018
Deposits receipt in advance		**18,021**	3,234
Finance lease payables		**30**	356
Current tax liabilities		**2,831**	382
Deferred tax liabilities		**10,345**	6,217
Bank borrowings		**109,229**	64,985
		150,292	86,757
Net current assets		**252,925**	235,535
Total assets less current liabilities		**332,082**	277,165
Non-current liabilities			
Finance lease payables		**–**	30
NET ASSETS		**332,082**	277,135
Capital and reserves			
Share capital	12	**10,000**	10,000
Reserves		**322,082**	267,135
TOTAL EQUITY		**332,082**	277,135

NOTES TO THE FINANCIAL INFORMATION

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 "**Listing Date**"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is D.D.111, Lot No. 117, Sheung Che Village, Pat Heung, Yuen Long, New Territories, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in 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, a company incorporated in the British Virgin Islands ("**BVI**").

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 GEM Listing Rules and the disclosure requirements of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 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 accounting periods reflected in these consolidated financial statements.

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.

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 consolidated financial statements are presented in Hong Kong dollars ("**HK$**") which is the Company's functional and presentation currency, and all values are rounded to the nearest thousands ("**HK$'000**"), except when otherwise indicated.

3. ADOPTION OF NEW AND REVISED HKFRSs

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 August 2017. None of these impacts on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(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 2017. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
HK(IFRIC) 23 Uncertainty Over Income Tax Treatments	1 January 2019

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 the new standards 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 9, HKFRS 15 and 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 interim financial report for the six months ending 31 January 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 9 ***Financial Instruments***

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

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

HKFRS 9 *Financial Instruments (continued)*

Based on an analysis of the Group's financial assets and financial liabilities as at 31 July 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Group have assessed the impact of HKFRS 9 to the Group's consolidated financial statements.

Impairment

HKFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group was to adopt the new impairment requirements at 31 July 2018, accumulated impairment loss at that date would be similar to that recognised under HKAS 39.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 August 2018 and that comparatives will not be restated.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

Timing of revenue recognition

Currently, revenue arising from provision of maintenance and ancillary services is recognised over time, whereas revenue from sales of heavy equipment and spare parts is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

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

HKFRS 15 *Revenue from Contracts with Customers (continued)*

Timing of revenue recognition (continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sales of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from provision of maintenance and ancillary services.

For contracts with customers in which the sale of heavy equipment and spare parts is generally expected to be the only performance obligation, adoption of HKFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

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 office 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.

3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

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

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. REVENUE AND SEGMENT INFORMATION

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

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Sales of heavy equipment and spare parts	**546,903**	274,999
Lease of heavy equipment	**47,383**	14,010
Maintenance and ancillary services	**5,533**	3,784
	599,819	292,793
Other income and net gains		
Compensation income from suppliers	**295**	109
Net gain on disposals of property, plant and equipment	**233**	28
Interest income	**129**	16
Reversal of allowance for trade receivables	**810**	680
Freight rebates	**450**	–
Others	**55**	171
	1,972	1,004

4. **REVENUE AND SEGMENT INFORMATION (continued)**

Segment information

Management has determined the operating segments based on the reports reviewed by the Directors, 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	–	Sales 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.

(i) Information about reportable segment profit or loss:

	Sales of heavy equipment and spare parts	**Lease of heavy equipment**	**Maintenance and ancillary services**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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**
Year ended 31 July 2017					
External revenue	274,999	14,010	3,784	–	292,793
Segment results	24,535	7,677	1,096	(16,475)	16,833

(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.

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 2018 (2017: nil).

5. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on borrowings		
– Wholly repayable within five years	**2,534**	1,232
Finance leases charges	**6**	16
	2,540	1,248

6. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Provision for the year	**7,228**	192
(Over)/under-provision in prior years	**(10)**	3
	7,218	195
Deferred tax	**4,128**	4,537
	11,346	4,732

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.

In previous year, Hong Kong profits tax has been provided at a rate of 16.5% on the estimated assessable profits during the year ended 31 July 2017.

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 two-tiered profits tax rates regime was applicable to Success Sky Corporation Limited, a subsidiary of the Company.

7. PROFIT FOR THE YEAR

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

	2018	2017
	HK$'000	*HK$'000*
Auditor's remuneration	**600**	500
Allowance for inventories (included in cost of inventories) *(Note)*	**1,391**	–
Cost of inventories sold	**461,321**	223,056
Depreciation	**11,328**	3,870
Foreign exchange loss, net	**555**	2,315
Net gain on disposals of property, plant and equipment	**(233)**	(28)
Listing expenses	**1,200**	10,681
Operating lease charges in respect of:		
– Director's quarters	**2,016**	1,854
– Office premises	**954**	792
	2,970	2,646
Reversal of allowance for trade receivables	**(810)**	(680)

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

8. DIVIDENDS

The Board has resolved not to recommend any final dividend for the year ended 31 July 2018 (2017: nil).

9. EARNINGS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company	**54,947**	12,101

	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000**	753,425

9. EARNINGS PER SHARE (continued)

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 2018 (2017: 753,425,000 shares in issue during the year, as if the reorganisation and capitalisation issue as detailed in the Company's annual financial statements for the year ended 31 July 2017 had been effective since 1 August 2015).

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 2017 and 2018.

10. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**96,211**	47,105
Allowance for doubtful debts	**(2,784)**	(3,594)
	93,427	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:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**75,238**	36,224
91 to 180 days	**10,292**	3,377
181 to 365 days	**7,756**	1,960
Over 1 year	**141**	1,950
	93,427	43,511

10. TRADE RECEIVABLES (continued)

As at 31 July 2018, trade receivables of HK$37,813,000 (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:

	2018	2017
	HK$'000	*HK$'000*
Up to 3 months	**31,184**	18,330
Over 3 months to 6 months	**4,673**	462
Over 6 months to 12 months	**1,956**	2,456
Over 1 year	**–**	307
	37,813	21,555

11. TRADE PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**5,191**	6,565

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

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**5,191**	6,565

The credit period ranges from 0 to 30 days.

12. SHARE CAPITAL

	Note	Number of shares	Amount HK$'000
Authorised:			
Ordinary shares of HK$0.01 each			
Upon incorporation on 11 December 2015 and as at 31 July 2016 and 1 August 2016		38,000,000	380
Increase in authorised share capital	(a)	962,000,000	9,620
As at 31 July 2017, 1 August 2017 and 31 July 2018		**1,000,000,000**	**10,000**
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
Upon incorporation on 11 December 2015 and as at 31 July 2016 and 1 August 2016		1	–
Shares issued upon group reorganisation		37,999,999	380
Shares issued pursuant to the capitalisation issue	(b)	712,000,000	7,120
Shares issued under the Share Offer (as defined below)	(c)	250,000,000	2,500
As at 31 July 2017, 1 August 2017 and 31 July 2018		**1,000,000,000**	**10,000**

Notes:

(a) Pursuant to the written resolutions of the shareholders of the Company (the "**Shareholders**") passed on 30 June 2017, the authorised share capital of the Company increased from HK$380,000 to HK$10,000,000 by creation of an additional of 962,000,000 shares of HK$0.01 each.

(b) Pursuant to the written resolutions passed by the Shareholders on 30 June 2017, conditional on share premium account of the Company being credited as a result of the Listing by way of public offer and placing (the "**Share Offer**"), the Directors were authorised to capitalise an amount of HK$7,120,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 712,000,000 shares for allotment and issue to the then existing Shareholders in proportion to their respective shareholdings.

(c) On the Listing Date, the Company issued 250,000,000 new shares at HK$0.44 each in relation to the Share Offer. The premium on the issue of shares, amounting to approximately HK$99,781,000, net of listing-related expenses, was credited to the Company's share premium account. These new shares rank pari passu with the existing shares in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is an earthmoving equipment sales and leasing service provider in Hong Kong with over 17 years of presence in the industry. The Group is principally engaged in (i) the 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

The Group's revenue increased by approximately HK$307.0 million, or 104.8%, to approximately HK$599.8 million for the year ended 31 July 2018 when compared with the year ended 31 July 2017. The Group recorded a significant increase in profit attributable to owners of the Company for the year ended 31 July 2018 by approximately 353.7% to approximately HK$54.9 million from approximately HK$12.1 million for the year ended 31 July 2017. The increase in the net profit for the year ended 31 July 2018 was primarily attributed to the growth in the sales business of heavy equipment and the expansion of the leasing business of the Group, which were driven by the strong market demand for those equipment during the year ended 31 July 2018.

The Group continued to focus on strengthening its market position as earthmoving equipment sales and leasing service provider. The Group has successfully introduced other type of earthmoving equipment in its product offering such as articulated dump truck to increase its product mix since the year ended 31 July 2017. In addition, during the year ended 31 July 2018, the Group entered into a non-exclusive distributorship agreement with a heavy equipment manufacturer on 1 October 2017 for the supply of the Japanese Airman brand of diesel engine generators. While the Group kept up with its sales business, it continued to expand its leasing business. The Group leased 329 units of heavy equipment to its customers for the year ended 31 July 2018 (2017: 156 units) and entered into 412 (2017: 182) leasing agreements. The Group also continued to provide maintenance and ancillary services.

Prospects

With continuous increase in the total public expenditure on infrastructure as outlined in the 2018-19 Budget Speech, the implementation of the ten major infrastructure projects and the land enhancement strategy by reclamation outside Victoria Harbour 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. 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 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 2018, the total revenue of the Group amounted to approximately HK$599.8 million, representing an increase of approximately HK$307.0 million or 104.8% from approximately HK$292.8 million for the year ended 31 July 2017. Such increase was mainly attributable to the increase in the sales of heavy equipment and spare parts and leasing segments.

Revenue from the sales of heavy equipment and spare parts

The revenue from the sales of heavy equipment and spare parts increased by approximately HK$271.9 million, or 98.9% from approximately HK$275.0 million for the year ended 31 July 2017 to approximately HK$546.9 million for the year ended 31 July 2018. Such increase was mainly attributable to the significant increase in sales of heavy vehicles of 104.0%, from approximately HK$230.9 million for the year ended 31 July 2017 to approximately HK$471.1 million for the year ended 31 July 2018. The sales of other heavy equipment also increased by approximately HK$24.6 million, or 157.7%, for the year ended 31 July 2018 as compared to the year ended 31 July 2017. Due to the strong market demand during the year ended 31 July 2018, the sales volume of new heavy vehicles increased to 136 units (2017: 86 units) while that of used heavy vehicles increased to 519 units (2017: 275 units) in the year ended 31 July 2018.

Revenue of the leasing of heavy equipment

The revenue from leasing of heavy equipment increased by approximately HK$33.4 million, or 238.6% from approximately HK$14.0 million for the year ended 31 July 2017 to approximately HK$47.4 million for the year ended 31 July 2018. The increase in revenue was mainly attributable to the expansion of the leasing business of the Group and the strong market demand in the heavy vehicles and the diesel engine generators.

Cost of Sales

The cost of sales amounted to approximately HK$508.6 million for the year ended 31 July 2018, representing an increase of approximately HK$262.9 million or 107.0% from approximately HK$245.7 million for the year ended 31 July 2017. Cost of sales mainly comprised cost of machinery, equipment and spare parts, depreciation, freight and transportation expenses, repairs and maintenance costs, and staff costs for operators, technicians and inspectors, which together accounted for approximately 99.9% for each of the years ended 31 July 2017 and 31 July 2018.

The increase was mainly attributable to the increase of approximately HK$239.7 million or 107.4% in the cost of machinery, equipment and spare parts, which was generally increased in line with revenue from sales of heavy equipment and spare parts of approximately 98.9% for the year ended 31 July 2018. Depreciation increased by approximately 253.7% for the year ended 31 July 2018 mainly due to the increase in the number of heavy equipment leased out during the year ended 31 July 2018 from 156 units for the year ended 31 July 2017 to 329 units for the year ended 31 July 2018. Freight and transportation expenses increased by approximately 102.3% for the year ended 31 July 2018 mainly due to the increase in import of machineries from overseas suppliers. Repairs and maintenance costs increased by approximately 16.6% for the year ended 31 July 2018 mainly due to the increase in expenses for repairs and maintenance services for used heavy vehicles. Staff costs increased by approximately 145.0% for the year ended 31 July 2018 mainly attributable to the increase in staff costs for operators by approximately 226.1% as a result of the increase in the number of operating hours of operators. Such increase was in line with the increase in revenue for leasing of heavy equipment. For the sales segment, staff costs of technicians and inspectors increased by approximately 72.0% mainly due to the increase in average headcount of the technical and maintenance team during the year ended 31 July 2018.

Gross Profit and Gross Profit Margin

The gross profit increased by approximately 93.6% from approximately HK$47.1 million for the year ended 31 July 2017 to approximately HK$91.2 million for the year ended 31 July 2018. The gross profit margin decreased from approximately 16.1% for the year ended 31 July 2017 to approximately 15.2% for the year ended 31 July 2018.

The increase in gross profit was mainly due to the increase in gross profit for sales of heavy equipment and spare parts by approximately HK$26.0 million and increase in gross profit from leasing of heavy equipment by approximately HK$17.8 million. The gross profit margin of the sales segment decreased from approximately 13.7% for the year ended 31 July 2017 to approximately 11.6% for the year ended 31 July 2018 mainly attributable to the increase in sales proportion of used heavy vehicles with relatively lower profit margin in the year ended 31 July 2018. The gross profit margin from the leasing segment decreased from approximately 59.0% for the year ended 31 July 2017 to approximately 54.9% for the year ended 31 July 2018 mainly due to the marketing strategy to attract customers for longer lease period.

Other Income

The other income increased by approximately 100.0% from approximately HK$1.0 million for the year ended 31 July 2017 to approximately HK$2.0 million for the year ended 31 July 2018, which was mainly due to the decrease in reversal of allowance for trade receivables.

Administrative and Other Operating Expenses

The administrative and other operating expenses decreased by approximately 19.0% from approximately HK$30.0 million for the year ended 31 July 2017 to approximately HK$24.3 million for the year ended 31 July 2018. The decrease in administrative expenses was mainly attributable to the decrease in the non-recurring listing expenses of approximately HK$9.5 million and exchange loss of approximately HK$1.8 million, which were partially offset by the increase in staff costs (including Directors' emoluments) of approximately HK$2.1 million, legal and professional fees of approximately HK$1.1 million, donation of approximately HK$0.6 million and insurance expenses of approximately HK$0.6 million.

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 92.3% from approximately HK$1.3 million for the year ended 31 July 2017 to approximately HK$2.5 million for the year ended 31 July 2018. The increase was mainly attributable to the increase in interest expenses on bank borrowings, which increased in line with the increase in bank borrowings for the year ended 31 July 2018.

Income Tax Expense

In previous year, income tax expense represented the provision of Hong Kong profits tax calculated at 16.5% of the estimated assessable profits during the year ended 31 July 2017.

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 two-tiered profits tax rates regime was applicable to Success Sky Corporation Limited, a subsidiary of the Company. In line with the increase in taxable profits, income tax expense increased to approximately HK$11.3 million for the year ended 31 July 2018 (2017: approximately HK$4.7 million).

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 increased by approximately HK$42.8 million, from approximately HK$12.1 million for the year ended 31 July 2017 to approximately HK$54.9 million for the year ended 31 July 2018. The net profit margin increased to 9.2% as compared to 4.1% for the year ended 31 July 2017. Excluding the non-recurring listing expenses, the Group would have recorded a profit attributable to owners of the Company of approximately HK$56.1 million for the year ended 31 July 2018 (2017: approximately HK$22.8 million).

Dividend

The Board has resolved not to recommend any final dividend for the year ended 31 July 2018 (2017: 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 2018 was approximately 2.7 times as compared to that of approximately 3.7 times as at 31 July 2017. The decrease was mainly due to the fact that the current assets did not increase as much as the current liabilities in terms of percentage. As at 31 July 2018, the Group had total bank and cash balances of approximately HK$45.3 million (31 July 2017: approximately HK$116.2 million). In addition, the Group had import loans of approximately HK$109.2 million (31 July 2017: approximately HK$65.0 million) and finance lease payables of approximately HK$0.1 million (31 July 2017: approximately HK$0.4 million) as at 31 July 2018.

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 2018 and multiplied by 100%, was approximately 32.9% as at 31 July 2018 (31 July 2017: approximately 23.6%). The Group had unutilised banking facilities of approximately HK$5.8 million as at 31 July 2018 (31 July 2017: Nil). 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$3.1 million (31 July 2017: approximately HK$3.6 million) and HK$2.6 million (31 July 2017: approximately HK$5.5 million) as at 31 July 2018, respectively.

As at 31 July 2018, the Group did not have any material capital commitments (31 July 2017: Nil).

Charge on Assets and Contingent Liabilities

As at 31 July 2018, the Group did not have any charge on its assets. As at 31 July 2017, the bank borrowings were secured by the Group's pledged bank deposit of HK$10.0 million. Finance lease was secured by a legal charge over a motor vehicle of the Group.

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

Capital Structure

The issued shares of the Company were listed on GEM of the Stock Exchange on 27 July 2017. 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.

Segmental Information

Segmental information is presented for the Group as disclosed in note 4 to the Financial Information above.

Material Acquisitions and Disposals

During the year ended 31 July 2018, 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 HK$, Japanese Yen ("**JPY**"), Renminbi ("**RMB**"), Euro ("**EUR**") and US dollar ("**USD**"). There is a currency difference between the Group's revenue receipts (which are denominated in HK$) 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.

Employees and Remuneration Policies

As at 31 July 2018, the Group employed 55 (31 July 2017: 48) full-time employees. The total staff costs (including Directors' remuneration) were approximately HK$26.9 million for the year ended 31 July 2018 (2017: approximately HK$15.5 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 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.

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 2018.

Important Events after the year ended 31 July 2018

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 2018 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

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

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

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 year ended 31 July 2018.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") currently comprises three independent non-executive Directors, namely Mr. Law Tze Lun, Mr. Kwok Siu Man and Dr. Wong Man Hin Raymond. Mr. Law Tze Lun is the chairman of the Audit Committee. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 July 2018 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.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "**2018 AGM**") will be held on Wednesday, 5 December 2018. The notice convening the 2018 AGM will be published and despatched to the Shareholders on or around 29 October 2018.

In order to ascertain the Shareholders' entitlements to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Friday, 30 November 2018 to Wednesday, 5 December 2018, both days inclusive, during which period no transfer of the Company's shares will be registered. All transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration by no later than 4:30 p.m. on Thursday, 29 November 2018.

ANNUAL REPORT

The annual report of the Company for the year ended 31 July 2018 containing all the information required by the GEM Listing Rules will be published on the respective websites of the Stock Exchange and the Company, and copies will be despatched to the Shareholders in due course in the manner required by the GEM Listing Rules.

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

Hong Kong, 8 October 2018

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

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