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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 JULY 2019

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.*

The board of Directors (the "**Board**") announces the audited consolidated results of the Group for the year ended 31 July 2019 together with the audited comparative figures for the year ended 31 July 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 July 2019

	Note	**2019** *HK$'000*	2018 *HK$'000*
Revenue	4	**572,049**	599,819
Cost of revenue		**(491,659)**	(508,642)
Gross profit		**80,390**	91,177
Other income and net gains	4	**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	5	**(3,929)**	(2,540)
Profit before tax		**46,775**	66,293
Income tax expense	6	**(8,224)**	(11,346)
Profit and total comprehensive income for the year attributable to owners of the Company	7	**38,551**	54,947
Earnings per share			
– Basic and diluted (HK cents per share)	9	**3.86**	5.49

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**168,509**	79,157
Deposits paid for property, plant and equipment		**447**	–
		168,956	79,157
Current assets			
Inventories		**186,736**	199,070
Trade receivables	10	**89,569**	93,427
Prepayments, deposits and other receivables		**31,306**	65,467
Bank and cash balances		**66,940**	45,253
		374,551	403,217
Current liabilities			
Trade payables	11	**8,505**	5,191
Other payables and accruals		**4,045**	4,645
Contract liabilities		**9,919**	18,021
Finance lease payables		**–**	30
Current tax liabilities		**3,180**	2,831
Bank borrowings		**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		**18,130**	10,345
NET ASSETS		**365,633**	332,082
Capital and reserves			
Share capital	12	**10,000**	10,000
Reserves		**355,633**	322,082
TOTAL EQUITY		**365,633**	332,082

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

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

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

2. BASIS OF 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 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. 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.

3. APPLICATION OF NEW AND REVISED HKFRSs (continued)

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.

Impairment under the expected credit losses ("ECL") model

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**	**Carrying amount under HKFRS 9**
			HK$'000	*HK$'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. 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 recognsied. 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.

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. APPLICATION OF NEW AND REVISED HKFRSs (continued)

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 quarterly 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 quarterly 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.

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.

3. APPLICATION OF NEW AND REVISED HKFRSs (continued)

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:

	2019	2018
	HK$'000	*HK$'000*
Revenue		
Sales of heavy equipment and spare parts	**501,954**	546,903
Lease of heavy equipment	**65,846**	47,383
Provision of 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

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
Provision of 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**	**Provision of maintenance and ancillary services**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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**
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

(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 2019 (2018: nil).

5. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'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.

6. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'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	**7,785**	4,128
	8,224	11,346

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.

Upon the introduction of the two-tiered profits tax rates regime effective on 28 March 2018, the profits tax rate for the first HK$2 million of assessable profits has been lowered to 8.25% of a qualifying group entity, and assessable profits above HK$2 million will continue to be subject to the rate of 16.5%. For other group entities not qualifying for the two-tiered profits tax rates regime, Hong Kong profits tax has been provided at a rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year ended 31 July 2019.

7. PROFIT FOR THE YEAR

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

	2019	2018
	HK$'000	*HK$'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

8. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
2019 interim dividend of HK0.5 cent (2018: nil) per ordinary share	**5,000**	–

At a Board meeting of the Company held 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 interim dividend of HK$5,000,000 was paid to the shareholders of the Company (the "**Shareholders**") on 17 April 2019.

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

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company	**38,551**	54,947
	'000	*'000*
Number of shares		
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.

10. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'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 ageing analysis of trade receivables, based on the invoice date, before provision for impairment, is as follows:

	2019	2018
	HK$'000	*HK$'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

10. TRADE RECEIVABLES (continued)

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	Expected credit losses excluding specific trade receivables	Gross carrying amount of specific trade receivables	Loss allowance for specific trade receivables	Total loss allowance
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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)

11. TRADE PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**8,505**	5,191

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

	2019	2018
	HK$'000	*HK$'000*
0 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.

12. 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**

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 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 6.7% as compared to 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 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. 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 4 to the financial information above.

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 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.

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 announcement.

EMPLOYEES AND REMUNERATION POLICIES

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.

CORPORATE GOVERNANCE PRACTICES

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

Save for the deviation from code provision A.2.1 as mentioned above, the Board is satisfied that the Company had complied with all applicable code provisions of the CG Code during the year ended 31 July 2019.

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 2019.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") currently comprises three independent non-executive Directors, namely Mr. Law Tze Lun, Sir Kwok Siu Man KR 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 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.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "**2019 AGM**") will be held on Monday, 9 December 2019. The notice convening the 2019 AGM will be published and despatched to the Shareholders in due course in the manner required by the GEM Listing Rules on or around 18 October 2019.

In order to ascertain the Shareholders' entitlements 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 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 3 December 2019.

ANNUAL REPORT

The annual report of the Company for the year ended 31 July 2019 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 thereof 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, 10 October 2019

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 Sir Kwok Siu Man KR, Mr. Law Tze Lun and Dr. Wong Man Hin Raymond.

This announcement will remain on the "Latest Listed Company Information" 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.