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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: 2102)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 JULY 2020

FINANCIAL HIGHLIGHTS

- Revenue of the Group reached approximately HK$628.8 million for the year ended 31 July 2020, or increased by approximately 9.9% from approximately HK$572.0 million for the year ended 31 July 2019, mainly attributable to the strong performance in the leasing business of the Group.

- The Group's profit and total comprehensive income increased by approximately 32.9% from approximately HK$38.6 million for the year ended 31 July 2019 to approximately HK$51.3 million for the year ended 31 July 2020.

- Earnings per share attributable to owners of the Company was approximately HK5.13 cents for the year ended 31 July 2020 (2019: approximately HK3.86 cents).

- The Board has recommended the payment of a final dividend of HK1.0 cent per ordinary share for the year ended 31 July 2020. Together with the special dividend of HK1.5 cents per ordinary share paid, the total cash dividend for the year ended 31 July 2020 will be HK2.5 cents per ordinary share (2019: HK0.5 cent per ordinary share).

The board of directors (the "**Board**" and the "**Directors**", respectively) of Tak Lee Machinery Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 July 2020 together with the audited comparative figures for the year ended 31 July 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 July 2020

	Note	**2020** *HK$'000*	2019 *HK$'000*
Revenue	4	**628,798**	572,049
Cost of revenue		**(521,711)**	(491,659)
Gross profit		**107,087**	80,390
Other income and net gains	4	**3,099**	1,284
Allowance for trade and lease receivables		**(1,408)**	(667)
Administrative and other operating expenses		**(40,571)**	(30,303)
Profit from operations		**68,207**	50,704
Finance costs	5	**(5,547)**	(3,929)
Profit before tax		**62,660**	46,775
Income tax expense	6	**(11,375)**	(8,224)
Profit and total comprehensive income for the year attributable to owners of the Company	7	**51,285**	38,551
Earnings per share			
– Basic and diluted (HK cents per share)	9	**5.13**	3.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2020

	Note	**2020** *HK$'000*	2019 *HK$'000*
Non-current assets			
Property, plant and equipment		**148,282**	168,509
Right-of-use assets		**15,994**	–
Deposits paid for property, plant and equipment		**–**	447
		164,276	168,956
Current assets			
Inventories		**134,106**	186,736
Trade and lease receivables	10	**160,014**	89,569
Prepayments, deposits and other receivables		**12,692**	31,306
Bank and cash balances		**69,265**	66,940
		376,077	374,551
Current liabilities			
Trade payables	11	**8,561**	8,505
Other payables and accruals		**10,543**	4,045
Contract liabilities		**12,662**	9,919
Lease liabilities		**3,004**	–
Current tax liabilities		**6,519**	3,180
Bank borrowings		**72,896**	134,095
		114,185	159,744
Net current assets		**261,892**	214,807
Total assets less current liabilities		**426,168**	383,763
Non-current liabilities			
Lease liabilities		**892**	–
Deferred tax liabilities		**23,358**	18,130
		24,250	18,130
NET ASSETS		**401,918**	365,633
Capital and reserves			
Share capital	12	**10,000**	10,000
Reserves		**391,918**	355,633
TOTAL EQUITY		**401,918**	365,633

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 11 December 2015. Its shares were initially listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 27 July 2017 and were transferred from GEM to the Main Board of the Stock Exchange on 6 October 2020 (the "**Transfer of Listing**"). 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**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. ADOPTION OF NEW AND REVISED HKFRSs

(a) Application of new and revised HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

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

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 August 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 August 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 August 2019. For contracts entered into before 1 August 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

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

HKFRS 16 Leases (continued)

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.23%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 July 2020;

(ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of leasehold land and properties was determined on a portfolio basis;

(iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

(iv) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(v) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

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

HKFRS 16 Leases (continued)

(b) Lessee accounting and transitional impact (continued)

The following table reconciles the operating lease commitments as at 31 July 2019 to the opening balance for lease liabilities recognised as at 1 August 2019:

	At 1 August 2019
	HK$'000
Operating lease commitments at 31 July 2019 as disclosed in Group's consolidated financial statements	4,533
Less: Recognition exemption for lease with less than 12 months of leases term at transition	(240)
Add: Adjustments as a result of a different treatment of extension and termination option	460
Less: Total future interest expenses	(183)
Lease liabilities recognised as at 1 August 2019	4,570
Of which are:	
Current lease liabilities	2,600
Non-current lease liabilities	1,970
	4,570

The following table summaries the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

		Effects of adoption HKFRS 16			
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16		**Carrying amount as at 31 July 2019**	**Reclassification**	**Recognition of leases**	**Carrying amount as at 1 August 2019**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Right-of-use assets		**–**	12,646	4,570	**17,216**
Property, plant and equipment	(i)	**160,474**	(12,646)	–	**147,828**
Liabilities					
Lease liabilities		**–**	–	4,570	**4,570**

Note:

(i) Upfront payments for leasehold lands in own used lands were classified as leasehold land included in property, plant and equipment as at 31 July 2019. Upon application of HKFRS 16, the carrying amount of the leasehold land amounting to HK$12,646,000 was classified to right-of-use assets.

3. ADOPTION OF NEW AND REVISED HKFRSs (continued)

(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 on 1 August 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, it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

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

	2020	2019
	HK$'000	*HK$'000*
Revenue		
Sales of heavy equipment and spare parts	**452,365**	501,954
Lease of heavy equipment	**170,453**	65,846
Provision of maintenance and ancillary services	**5,980**	4,249
	628,798	572,049
Other income and net gains		
Compensation income from suppliers	**674**	616
Net gain on disposals of property, plant and equipment	**660**	520
Interest income	**1**	3
Foreign exchange gain, net	**1,338**	–
Government grants	**294**	–
Others	**132**	145
	3,099	1,284

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.

4. REVENUE AND SEGMENT INFORMATION (continued)

Segment information (continued)

(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 2020					
External revenue	**452,365**	**170,453**	**5,980**	**–**	**628,798**
Segment results	**27,494**	**54,222**	**589**	**(19,645)**	**62,660**
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

(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

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

	2020	2019
	HK$'000	*HK$'000*
Customer A	**128,320**	N/A[1]

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest on borrowings		
– Wholly repayable within five years	**5,387**	3,929
Finance leases charges	**–**	–[(i)]
Interest on lease liabilities	**160**	–
	5,547	3,929

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

6. INCOME TAX EXPENSE

	2020 *HK$'000*	2019 *HK$'000*
Current tax – Hong Kong		
Provision for the year	**6,167**	352
(Over)/under-provision in prior years	**(20)**	87
	6,147	439
Deferred tax	**5,228**	7,785
	11,375	8,224

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 two-tiered profits tax rates regime, 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% (2019: 16.5%) on the estimated assessable profits for the year ended 31 July 2020.

7. PROFIT FOR THE YEAR

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

	2020 *HK$'000*	2019 *HK$'000*
Auditor's remuneration	**730**	650
Allowance for trade and lease receivables	**1,408**	667
Reversal of allowance for inventories (included in cost of inventories), net	**(186)**	(184)
(Reversal of impairment)/impairment of property, plant and equipment, net	**(786)**	659
Cost of inventories sold	**382,990**	431,899
Depreciation of property, plant and equipment	**33,946**	21,799
Depreciation of right-of-use assets	**3,271**	–
Foreign exchange (gain)/loss, net	**(1,338)**	1,140
Net gain on disposals of property, plant and equipment	**(660)**	(520)
Listing expenses	**2,004**	1,950
Operating lease charges in respect of:		
– Director's quarters	**–**	2,106
– Office premises	**1,312**	1,896
	1,312	4,002
Staff costs (including Directors' remuneration)		
– Salaries, allowances and bonus	**89,860**	29,784
– Retirement benefit scheme contribution	**2,691**	852
	92,551	30,636

8. DIVIDENDS

	2020	2019
	HK$'000	*HK$'000*
Dividend paid		
2019 interim dividend of HK0.5 cent per ordinary share	**–**	5,000
2020 special dividend of HK1.5 cents (2019: nil) per ordinary share	**15,000**	–
	15,000	5,000
Dividend proposed		
2020 proposed final dividend of HK1.0 cent (2019: nil) per ordinary share	**10,000**	–

The final dividend for the year ended 31 July 2020 was recommended by the Board at a Board meeting held on 20 October 2020. Such recommended final dividend is subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting. This recommended final dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 July 2021 after the approval at the forthcoming annual general meeting.

At a Board meeting of the Company held on 17 February 2020, the Board declared a special dividend of HK1.5 cents per ordinary share of the Company, amounting to HK$15,000,000. The special dividend of HK$15,000,000 was paid to the Shareholders on 19 March 2020.

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:

	2020	2019
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company	**51,285**	38,551
	'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 2020 (2019: 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 2019 and 2020.

10. TRADE AND LEASE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade and lease receivables	**161,809**	93,020
Allowance for doubtful debts	**(1,795)**	(3,451)
	160,014	89,569

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 and lease receivables, based on the invoice date, before provision for impairment, is as follows:

	2020	2019
	HK$'000	*HK$'000*
0 to 90 days	**96,419**	42,346
91 to 180 days	**48,383**	38,547
181 to 365 days	**14,594**	7,313
Over 365 days	**2,413**	4,814
	161,809	93,020

10. TRADE AND LEASE RECEIVABLES (continued)

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

	Expected credit loss rate	Gross carrying amount excluding specific trade lease receivables	Expected credit losses excluding specific trade lease receivables	Gross carrying amount of specific trade lease receivables	Loss allowance for specific trade lease receivables	Total loss allowance as at 31 July 2020	Total loss allowance as at 31 July 2019
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Rental segment							
Current	0.9886%	41,270	(408)	–	–	**(408)**	(118)
1 to 90 days	1.0979%	11,203	(123)	–	–	**(123)**	(32)
91 to 180 days	1.8378%	2,775	(51)	–	–	**(51)**	(80)
181 to 365 days	3.4976%	1,887	(66)	–	–	**(66)**	(69)
Over 365 days	21.2500%	80	(17)	334	(334)	**(351)**	(356)
		57,215	(665)	334	(334)	**(999)**	(655)
Sales segment							
Current	0.7537%	58,375	(440)	–	–	**(440)**	(3)
1 to 90 days	0.7615%	17,597	(134)	–	–	**(134)**	(4)
91 to 180 days	0.7776%	23,662	(184)	–	–	**(184)**	(1)
181 to 365 days	0.8055%	4,469	(36)	–	–	**(36)**	(3)
Over 365 days	1.2821%	156	(2)	–	–	**(2)**	(2,785)
		104,259	(796)	–	–	**(796)**	(2,796)
		161,474	(1,461)	334	(334)	**(1,795)**	(3,451)

11. TRADE PAYABLES

	2020	2019
	HK$'000	*HK$'000*
Trade payables	**8,561**	8,505

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

	2020	2019
	HK$'000	*HK$'000*
0 to 90 days	**8,301**	5,400
91 to 180 days	**230**	1,144
Over 180 days	**30**	1,961
	8,561	8,505

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 2018, 31 July 2019, 1 August 2019 and 31 July 2020	**10,000,000,000**	**100,000**
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
As at 31 July 2018, 31 July 2019, 1 August 2019 and 31 July 2020	**1,000,000,000**	**10,000**

13. EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of novel coronavirus disease 2019 (the "**COVID-19**") in December 2019, the prevention and control of the COVID-19 has been going on throughout Hong Kong. Subject to the development and spread of the COVID-19 subsequent to the end of the reporting period, further changes in economic conditions may have an impact on the financial results of the Group, and the extent of which could not be estimated as at the date of these consolidated financial statements. The Group will keep continuous attention on the situation of the COVID-19 and proactively take action with an attempt to minimise its impact on the Group's financial position and operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is an earthmoving equipment sales and leasing service provider in Hong Kong with over 19 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 an increase in profit attributable to owners of the Company for the year ended 31 July 2020 by approximately 32.9% to approximately HK$51.3 million from approximately HK$38.6 million for the year ended 31 July 2019.

The increase in net profit of the Group for the year ended 31 July 2020 was mainly attributed to the growth in the leasing business of the Group, which was driven by the demand arising from the commencement and progress of large-scale infrastructure and reclamation projects in Hong Kong such as the Three Runway System of the Hong Kong International Airport and the Tung Chung New Town Extension. The Company was not materially and adversely affected by the outbreak of the COVID-19 during the year ended 31 July 2020.

Earnings per share for the year ended 31 July 2020 was HK5.13 cents per share, representing an increase of approximately 32.9% compared with HK3.86 cents per share for the year ended 31 July 2019. The basis of calculating the earnings per share is detailed in note 9 to the financial information above.

The outbreak of COVID-19 poses threats to the local economy. As the development of such epidemic remains to be unpredictable, the extent of its impact on the economy of Hong Kong is subject to much uncertainties. The industry which the Group operates in may be directly or indirectly affected. Nonetheless, based on the government's plan, the Group remains cautiously optimistic on the outlook and the prospects for sales and leasing of heavy equipment. According to the 2020-21 Budget Speech, the Hong Kong government will continue to invest in infrastructure projects. In the next few years, the annual capital works expenditure is expected to reach HK$100 billion on average, and the annual total construction output will increase to around HK$300 billion. Besides, due to the land enhancement strategy by reclamation and rock cavern development proposed by the government and the commencement of several other large-scale infrastructure projects, such as the Three Runway System of the Hong Kong International Airport, Route 6 Development and the Tung Chung New Town Extension, the Group is expecting a stable growth in the heavy equipment industry in Hong Kong in the coming future. Hence, the Group believes that the demand for its heavy equipment will remain strong in the coming years. To capture opportunities, the Group is committed to the diversification of its supplier base and product offering. For instance, during the year ended 31 July

2020, the Group entered into a new dealership agreement, under which the Group was granted the dealership for foundation equipment. While monitoring closely the impact of the COVID-19 on the industry the Group operates in, the Group will continue to implement its corporate strategies to preserve and strive for the growth of the Group in the long term. The Group will continue to identify suitable suppliers and products in pursuit of more dealerships or distributorships of heavy equipment, 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 2020, the total revenue of the Group amounted to approximately HK$628.8 million, representing an increase of approximately HK$56.8 million or 9.9% from approximately HK$572.0 million for the year ended 31 July 2019.

Such increase was mainly attributable to the increase in leasing income of approximately 104.7 million and the increase in machinery ancillary services income of approximately HK$1.7 million, which was partially offset by the decrease in sales of heavy equipment and spare parts of approximately HK$49.6 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$49.6 million or 9.9% from approximately HK$502.0 million for the year ended 31 July 2019 to approximately HK$452.4 million for the year ended 31 July 2020. Such decrease was mainly attributable to the decrease in sales of used heavy vehicles by approximately HK$55.3 million or 27.4% for the year ended 31 July 2020. Such decrease was partly offset by the increase in the sales of new heavy vehicles of approximately HK$10.5 million or 4.4%, mainly due to the market demand of new heavy vehicles arising from the commencement and progress of various infrastructure, reclamation and tunnel projects in Hong Kong.

Revenue from the leasing of heavy equipment

The revenue from leasing of heavy equipment increased by approximately HK$104.7 million or 159.1% from approximately HK$65.8 million for the year ended 31 July 2019 to approximately HK$170.5 million for the year ended 31 July 2020. The increase in revenue was mainly driven by the demand arising from the commencement and progress of large-scale infrastructure and reclamation projects in Hong Kong such as the Three Runway System of the Hong Kong International Airport and the Tung Chung New Town Extension.

Cost of revenue

The cost of revenue amounted to approximately HK$521.7 million for the year ended 31 July 2020, representing an increase of approximately HK$30.0 million or 6.1% from approximately HK$491.7 million for the year ended 31 July 2019. Cost of revenue mainly comprised cost of heavy equipment and spare parts, depreciation, freight and transportation costs, repairs and maintenance costs, staff costs for operators and technicians and sub-leasing fee. The increase in the cost of revenue was mainly driven by the increase in leasing business for the year ended 31 July 2020. Depreciation increased by approximately 60.1% for the year ended 31 July 2020, which was mainly due to the increase in the number of heavy equipment leased out during the year ended 31 July 2020. The corresponding staff costs in leasing business increased by approximately 474.2% for the year ended 31 July 2020, which was mainly attributable to the increase in staff costs for operators. In addition, the sub-leasing fee increased by approximately 138.5% for the year ended 31 July 2020. Such increase was mainly attributable to unexpected demand from customers for the leasing of heavy vehicles which the Group had no such types of heavy vehicles on hand at the time of leasing. Overall speaking, freight and transportation expenses increased by approximately 37.7% for the year ended 31 July 2020. The increase was mainly due to the increase in import of machineries from overseas suppliers. Repairs and maintenance costs also increased by approximately 58.9% for the year ended 31 July 2020 in respect of the increase in costs for repairing and maintenance of leased machineries including articulated dump trucks.

Gross profit and gross profit margin

The gross profit increased by approximately 33.2% from approximately HK$80.4 million for the year ended 31 July 2019 to approximately HK$107.1 million for the year ended 31 July 2020, with gross profit margin at approximately 17.0% for the year ended 31 July 2020 as compared with that of approximately 14.1% for the year ended 31 July 2019. The increases in gross profit and gross profit margin were mainly attributable to the increase in gross profit of the leasing business by approximately HK$32.1 million for the year ended 31 July 2020. The gross profit of the sales of heavy equipment and spare parts decreased by approximately HK$5.5 million and the gross profit of the provision of maintenance and ancillary services remained stable for the year ended 31 July 2020.

The gross profit margin of the sales segment remained stable at approximately 9.9% and 10.1% for the year ended 31 July 2019 and 2020 respectively. The gross profit margin for the leasing segment decreased from approximately 44.6% for the year ended 31 July 2019 to approximately 36.0% for the year ended 31 July 2020. The decrease was mainly due to the increase in proportion of leasing on wet hire basis and additional staff costs incurred for longer operating hours per day of the Group's leased heavy vehicles as required by its customers.

Other income

The other income increased by approximately 138.5% from approximately HK$1.3 million for the year ended 31 July 2019 to approximately HK$3.1 million for the year ended 31 July 2020. The increase was mainly due to the increase in net foreign exchange gain of approximately HK$1.3 million.

Administrative and other operating expenses

The administrative and other operating expenses increased by approximately 34.0% from approximately HK$30.3 million for the year ended 31 July 2019 to approximately HK$40.6 million for the year ended 31 July 2020. The increase in administrative expenses was mainly attributable to the increase in the depreciation expenses of right-of-use assets of approximately HK$3.3 million and staff costs (including Directors' emoluments but excluding quarters expenses) of approximately HK$7.7 million as a result of the increase in number of staff and the payment of discretionary bonus.

Finance costs

The finance costs represented interest expenses on bank borrowings, finance lease charges and interest on lease liabilities and increased by approximately 41.0% from approximately HK$3.9 million for the year ended 31 July 2019 to approximately HK$5.5 million for the year ended 31 July 2020. The increase was in line with the increase in the average amount of bank borrowings for the year ended 31 July 2020 as compared to those of last year.

Income tax expense

The income tax expenses increased by approximately HK$3.2 million or approximately 38.3% for the year ended 31 July 2020 compared with those of last year and the increase was in line with the increase 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 increased by approximately HK$12.7 million or 32.9%, from approximately HK$38.6 million for the year ended 31 July 2019 to approximately HK$51.3 million for the year ended 31 July 2020. The net profit margin increased to 8.2% as compared to 6.7% for the year ended 31 July 2019.

DIVIDEND

The Board has recommended the payment of a final dividend of HK1.0 cent per ordinary share for the year ended 31 July 2020 (the "**Final Dividend**") to the Shareholders whose names appear on the register of members of the Company on Thursday, 10 December 2020, subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company. The proposed Final Dividend, if approved, will be paid to the Shareholders on or around Wednesday, 23 December 2020.

Together with the special dividend of HK1.5 cents per ordinary share paid to the Shareholders on 19 March 2020, the total cash dividend for the year ended 31 July 2020 will be HK2.5 cents per ordinary share (2019: HK0.5 cent per ordinary share).

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 2020 was approximately 3.3 times as compared to that of approximately 2.3 times as at 31 July 2019. The increase was mainly due to the decrease in bank borrowings of approximately HK$61.2 million. As at 31 July 2020, the Group had total bank and cash balances of approximately HK$69.3 million (31 July 2019: approximately HK$66.9 million). In addition, as at 31 July 2020, the Group had bank borrowings of approximately HK$72.9 million (31 July 2019: approximately HK$134.1 million).

The gearing ratio, calculated based on total debts (including bank borrowings and lease liabilities) divided by total equity at the end of the year ended 31 July 2020 and multiplied by 100%, was approximately 19.1% as at 31 July 2020 (31 July 2019: approximately 36.7%). The Group had unutilised banking facilities of approximately HK$93.5 million as at 31 July 2020 (31 July 2019: approximately HK$17.4 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

As at 31 July 2020, the Group's operating lease commitments as lessee and lessor amounted to nil (31 July 2019: approximately HK$4.5 million) and approximately HK$70.2 million (31 July 2019: approximately HK$14.2 million), respectively.

As at 31 July 2020, the Group had capital commitments contracted for but not yet incurred of nil (31 July 2019: approximately HK$1.6 million).

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 July 2020, the Group did not have any charge on its assets (31 July 2019: nil).

As at 31 July 2020, the Group did not have any material contingent liabilities (31 July 2019: nil).

CAPITAL STRUCTURE

The issued shares of the Company were initially listed on GEM of the Stock Exchange on 27 July 2017. The listing was transferred from GEM to the Main Board of the Stock Exchange on 6 October 2020. There has been no change in the Company's capital structure before and after the Transfer of 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 2020, 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 2020, 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 2020.

IMPORTANT EVENTS AFTER THE YEAR ENDED 31 JULY 2020

Save for the Transfer of Listing, 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 2020 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 July 2020, the Group employed 211 (31 July 2019: 117) full-time employees. The total staff costs (including Directors' remuneration) were approximately HK$92.6 million for the year ended 31 July 2020 (2019: approximately HK$30.6 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 as incentives or awards for their contribution or potential contribution to 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

The Company's corporate governance practices are based on, among others, the principles and the code provisions of the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules (applicable to the Company immediately after the Transfer of Listing) and Appendix 15 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**") (applicable to the Company prior to the Transfer of Listing).

Code provision A.2.1 of the CG Code contained in Appendix 14 to the Listing Rules and Appendix 15 to the GEM Listing Rules 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 contained in Appendix 15 to the GEM Listing Rules during the year ended 31 July 2020.

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 2020.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Board (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. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 July 2020 and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "**2020 AGM**") will be held on Monday, 30 November 2020. The notice convening the 2020 AGM will be published and despatched to the Shareholders in the manner required by the Listing Rules on or around 29 October 2020.

CLOSURE OF REGISTER OF MEMBERS

For the 2020 AGM

The register of members of the Company (the "**Register of Members**") will be closed from Wednesday, 25 November 2020 to Monday, 30 November 2020, both days inclusive, during which period no transfer of the Company's shares will be registered. In order to be eligible to attend and vote at the 2020 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "**Hong Kong Branch Share Registrar**") for registration no later than 4:30 p.m. on Tuesday, 24 November 2020.

For the Final Dividend

The Register of Members will be closed from Monday, 7 December 2020 to Thursday, 10 December 2020, both days inclusive, during which period no transfer of the Company's shares will be registered. In order to qualify for the proposed Final Dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar for registration no later than 4:30 p.m. on Friday, 4 December 2020.

ANNUAL REPORT

The annual report of the Company for the year ended 31 July 2020 containing all the information required by the 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 Listing Rules.

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

Hong Kong, 20 October 2020

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.