

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 : 2102



INTERIM REPORT

2020-2021

RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2021



CONTENTS

Corporate Information	2
Financial Highlights	3
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	4
Interim Condensed Consolidated Statement of Financial Position	5
Interim Condensed Consolidated Statement of Changes in Equity	6
Interim Condensed Consolidated Statement of Cash Flows	7
Notes to the Interim Condensed Consolidated Financial Statements	8
Management Discussion and Analysis	19
Corporate Governance and Other Information	26

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. CHOW Luen Fat (*Chairman and Chief Executive Officer*)

Ms. LIU Shuk Yee

Ms. NG Wai Ying

Non-executive Director

Ms. CHENG Ju Wen

Independent Non-executive Directors

Sir KWOK Siu Man KR

Mr. LAW Tze Lun

Dr. WONG Man Hin Raymond

COMPANY SECRETARY

Ms. NG Wai Ying

AUTHORISED REPRESENTATIVES

Mr. CHOW Luen Fat

Ms. NG Wai Ying

BOARD COMMITTEES

Audit Committee

Mr. LAW Tze Lun (*Chairman*)

Sir KWOK Siu Man KR

Dr. WONG Man Hin Raymond

Remuneration Committee

Dr. WONG Man Hin Raymond
(*Chairman*)

Sir KWOK Siu Man KR

Mr. LAW Tze Lun

Nomination Committee

Sir KWOK Siu Man KR (*Chairman*)

Mr. LAW Tze Lun

Dr. WONG Man Hin Raymond

REGISTERED OFFICE

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

LEGAL ADVISER

As to Hong Kong Law
Loeb & Loeb LLP



HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong)
Limited
The Hongkong and Shanghai Banking
Corporation Limited

INDEPENDENT AUDITOR

RSM Hong Kong
Certified Public Accountants and
Registered Public Interest Entity Auditor

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

2102

COMPANY'S WEBSITE

www.tlmc-hk.com

KEY DATES

Closure of Register of Members

12 to 15 April 2021

Proposed Payment of Interim Dividend

27 April 2021



FINANCIAL HIGHLIGHTS

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2021

The board of directors (the “**Board**” and the “**Directors**”, respectively) of Tak Lee Machinery Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 31 January 2021, together with the comparative figures for the corresponding period in 2020.

The Group recorded an increase in profit attributable to owners of the Company for the six months ended 31 January 2021 by approximately 11.9% to approximately HK\$31.0 million from approximately HK\$27.7 million for the six months ended 31 January 2020.

The increase in net profit of the Group for the six months ended 31 January 2021 was mainly attributed to (i) the growth in the leasing business of the Group, which was driven by the demand arising from the 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 Route 6 Development; and (ii) the receipt of subsidies under the Employment Support Scheme of the Hong Kong Government.

Earnings per share for the six months ended 31 January 2021 was approximately HK3.10 cents, representing an increase of approximately 11.9% compared with approximately HK2.77 cents for the same period in 2020.

The Board has resolved to declare an interim dividend of HK1.5 cents per ordinary share of the Company, payable to the shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company (the “**Register of Members**”) at the close of business on Thursday, 15 April 2021. It is expected that the interim dividend will be paid in cash on or about Tuesday, 27 April 2021.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 January 2021

		Six months ended 31 January	
	Note	2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
Revenue	3	262,201	351,002
Cost of revenue		<u>(213,443)</u>	<u>(294,681)</u>
Gross profit		48,758	56,321
Other income and net gains	3	8,136	1,560
Allowance for trade and lease receivables		(477)	(685)
Administrative and other operating expenses		<u>(19,419)</u>	<u>(20,106)</u>
Profit from operations		36,998	37,090
Finance costs		<u>(1,296)</u>	<u>(3,566)</u>
Profit before tax		35,702	33,524
Income tax expense	4	<u>(4,745)</u>	<u>(5,836)</u>
Profit and total comprehensive income for the period attributable to owners of the Company	5	<u><u>30,957</u></u>	<u><u>27,688</u></u>
Earnings per share			
– Basic and diluted (HK cents per share)	6	<u><u>3.10</u></u>	<u><u>2.77</u></u>





INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2021

		At 31 January 2021 HK\$'000 (unaudited)	At 31 July 2020 HK\$'000 (audited)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	7	125,484	148,282
Right-of-use assets	7	16,686	15,994
Deposits paid for property, plant and equipment		1,155	–
		<u>143,325</u>	<u>164,276</u>
Current assets			
Inventories		149,082	134,106
Trade and lease receivables	8	166,579	160,014
Prepayments, deposits and other receivables		26,562	12,692
Bank and cash balances		71,951	69,265
		<u>414,174</u>	<u>376,077</u>
Current liabilities			
Trade payables	9	7,969	8,561
Other payables and accruals		8,492	10,543
Contract liabilities		11,169	12,662
Lease liabilities		1,856	3,004
Current tax liabilities		14,332	6,519
Bank borrowings		68,257	72,896
		<u>112,075</u>	<u>114,185</u>
Net current assets		<u>302,099</u>	<u>261,892</u>
Total assets less current liabilities		<u>445,424</u>	<u>426,168</u>
Non-current liabilities			
Lease liabilities		2,943	892
Deferred tax liabilities		19,606	23,358
		<u>22,549</u>	<u>24,250</u>
NET ASSETS		<u><u>422,875</u></u>	<u><u>401,918</u></u>
Capital and reserves			
Share capital	10	10,000	10,000
Reserves		412,875	391,918
TOTAL EQUITY		<u><u>422,875</u></u>	<u><u>401,918</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2021

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 August 2020 (audited)	10,000	92,661	2,620	296,637	401,918
Profit and total comprehensive income for the period	–	–	–	30,957	30,957
Dividends paid	–	–	–	(10,000)	(10,000)
At 31 January 2021 (unaudited)	<u>10,000</u>	<u>92,661</u>	<u>2,620</u>	<u>317,594</u>	<u>422,875</u>
At 1 August 2019 (audited)	10,000	92,661	2,620	260,352	365,633
Profit and total comprehensive income for the period	–	–	–	27,688	27,688
At 31 January 2020 (unaudited)	<u>10,000</u>	<u>92,661</u>	<u>2,620</u>	<u>288,040</u>	<u>393,321</u>





INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 January 2021

	Six months ended 31 January	
	2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
Net cash generated from operating activities	19,486	21,122
Net cash used in investing activities	(192)	(1,574)
Net cash used in financing activities	(16,742)	(29,122)
Effect of foreign exchange rate changes	135	(846)
Net increase/(decrease) in cash and cash equivalents	2,687	(10,420)
Cash and cash equivalents at beginning of the period	69,265	66,940
Cash and cash equivalents at end of the period, represented by bank and cash balances	71,952	56,520

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**”).

The interim condensed consolidated financial statements of the Group for the six months ended 31 January 2021 (the “**Interim Condensed Consolidated Financial Statement**”) are presented in Hong Kong dollars (“**HK\$**”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These Interim Condensed Consolidated Financial Statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRS**”), the accounting policies and methods of computation used in the Interim Condensed Consolidated Financial Statements are the same as those presented in the Group’s annual financial statements for the year ended 31 July 2020.





Application of amendments to HKFRSs

In current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 August 2020 for the preparation of the Interim Condensed Consolidated Financial Statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of Business
Amendments to HKFRS 9, HKAS39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKFRS 16	COVID-19 – Related Rent Concessions

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these Interim Condensed Consolidated Financial Statements.

Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements mark on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature of magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the Interim Condensed Consolidated Financial Statements.

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Six months ended 31 January	
	2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
Revenue		
Sales of heavy equipment and spare parts	147,597	264,775
Lease of heavy equipment	109,041	83,904
Provision of maintenance and ancillary services	5,563	2,323
	<u>262,201</u>	<u>351,002</u>
Other income and net gains		
Compensation income from suppliers	150	292
Net gain on disposals of property, plant and equipment	498	315
Interest income	–	1
Foreign exchange gain, net	–	870
Government grants	7,142	–
Others	346	82
	<u>8,136</u>	<u>1,560</u>

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 interim condensed consolidated statement of profit or loss and other comprehensive income.

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





(i) Information about reportable segment profit or loss:

	Sales of heavy equipment and spare parts <i>HK\$'000</i> (unaudited)	Lease of heavy equipment <i>HK\$'000</i> (unaudited)	Maintenance and ancillary services <i>HK\$'000</i> (unaudited)	Unallocated <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
For the six months ended 31 January 2021					
Disaggregated by timing of revenue recognition					
Point in time	147,597	–	5,563	–	153,160
Over time	–	109,041	–	–	109,041
External revenue	<u>147,597</u>	<u>109,041</u>	<u>5,563</u>	<u>–</u>	<u>262,201</u>
Segment results	<u>9,757</u>	<u>33,025</u>	<u>404</u>	<u>(7,484)</u>	<u>35,702</u>
For the six months ended 31 January 2020					
Disaggregated by timing of revenue recognition					
Point in time	264,775	–	2,323	–	267,098
Over time	–	83,904	–	–	83,904
External revenue	<u>264,775</u>	<u>83,904</u>	<u>2,323</u>	<u>–</u>	<u>351,002</u>
Segment results	<u>15,764</u>	<u>30,080</u>	<u>183</u>	<u>(12,503)</u>	<u>33,524</u>

(ii) Geographical information

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

4. INCOME TAX EXPENSE

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

	Six months ended 31 January	
	2021 HK\$ '000 (unaudited)	2020 HK\$ '000 (unaudited)
Current tax		
Provision for the period	8,497	1,373
Deferred tax	(3,752)	4,463
	<u>4,745</u>	<u>5,836</u>

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.

Under the two-tiered profits tax rates regime, profits tax rate for the first HK\$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the six months ended 31 January 2021 and only one subsidiary in the Group could elect for the two-tiered profits tax rates regime and the election, once made, is irrevocable.





5. PROFIT FOR THE PERIOD

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

	Six months ended	
	31 January	
	2021 <i>HK\$ '000</i> (unaudited)	2020 <i>HK\$ '000</i> (unaudited)
Auditor's remuneration	278	511
Cost of inventories sold	126,359	225,552
Depreciation		
– Property, plant and equipment	15,931	17,016
– Right-of-use assets	2,179	1,323
Foreign exchange loss/(gain), net	188	(870)
Transfer of Listing expenses	2,339	2,004
Net gain on disposals of property, plant and equipment	(498)	(315)
Operating lease charges in respect of office premises	321	720
Allowance/(reversal of allowance) for inventories (included in cost of inventories sold), net	(43)	179
Impairment/(reversal of impairment) of property, plant and equipment, net	(2)	177
Staff costs (including Directors' emoluments)		
– Salaries, allowances and bonus	57,710	39,573
– Retirement benefit scheme contributions	1,898	1,211
– Quarters expenses	1,008	1,002
	60,616	41,786

6. EARNINGS PER SHARE

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

	Six months ended 31 January	
	2021	2020
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	(unaudited)	(unaudited)
Earnings:		
Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	<u>30,957</u>	<u>27,688</u>
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for profit attributable to owners of the Company for the purpose of calculating basic earnings per share	<u>1,000,000</u>	<u>1,000,000</u>

Note:

The calculation of the basic earnings per share is based on the profit attributable to the owners of the Company for the six months ended 31 January 2021 of approximately HK\$30,957,000 (six months ended 31 January 2020: approximately HK\$27,688,000) and the weighted average 1,000,000,000 ordinary shares (six months ended 31 January 2020: 1,000,000,000 ordinary shares) in issue during the period.

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares in issue during the six months ended 31 January 2020 and 2021.





7. PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

During the six months ended 31 January 2021, the Group acquired items of property, plant and equipment with cost of approximately HK\$690,000 (six months ended 31 January 2020: approximately HK\$3,439,000). Items of property, plant and equipment with a net book value of approximately HK\$nil (six months ended 31 January 2020: approximately HK\$1,550,000) were disposed of during the six months ended 31 January 2021, resulting in a net gain on disposal of approximately HK\$498,000 (six months ended 31 January 2020: approximately HK\$315,000).

During the six months ended 31 January 2021, the Group reclassified some of the inventories to property, plant and equipment as machinery for lease when the relevant heavy equipment was leased to its customers. The value of heavy equipment reclassified amounted to approximately HK\$4,429,000 (six months ended 31 January 2020: approximately HK\$45,987,000).

During the six months ended 31 January 2021, the Group reclassified machinery for lease under property, plant and equipment to inventories held for sale at their carrying amounts of approximately HK\$12,029,000 (six months ended 31 January 2020: approximately HK\$42,307,000) when the machinery for lease ceased to be leased and became held for sale.

For both periods, the Group leased several premises for fixed term ranging from 2 to 3 years. Lease terms were negotiated on an individual basis and contain a wide range of different terms and conditions. During the six months ended 31 January 2021, the Group recognised approximately HK\$2,751,000 (six months ended 31 January 2020: approximately HK\$3,247,000) of right-of-use assets and approximately HK\$2,871,000 (six months ended 31 January 2020: approximately HK\$3,286,000) of lease liabilities.

8. TRADE AND LEASE RECEIVABLES

	At 31 January 2021 HK\$'000 (unaudited)	At 31 July 2020 HK\$'000 (audited)
Trade and lease receivables	168,851	161,809
Allowance for doubtful debts	(2,272)	(1,795)
	<u>166,579</u>	<u>160,014</u>

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:

	At 31 January 2021 HK\$'000 (unaudited)	At 31 July 2020 HK\$'000 (audited)
0 to 90 days	103,322	96,419
91 to 180 days	34,378	48,383
181 to 365 days	24,874	14,594
Over 365 days	6,277	2,413
	<u>168,851</u>	<u>161,809</u>

9. TRADE PAYABLES

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

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

	At 31 January 2021 HK\$'000 (unaudited)	At 31 July 2020 HK\$'000 (audited)
0 to 90 days	7,969	8,301
91 to 180 days	-	230
Over 180 days	-	30
	<u>7,969</u>	<u>8,561</u>





10. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.01 each		
As at 31 July 2019, 31 July 2020, 1 August 2020 and 31 January 2021 (unaudited)	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
As at 31 July 2019, 31 July 2020, 1 August 2020 and 31 January 2021 (unaudited)	<u>1,000,000,000</u>	<u>10,000</u>

11. DIVIDEND

	Six months ended 31 January	
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Dividend paid		
2020 final dividend of HK1.0 cent per ordinary share (2019: nil)	<u>10,000</u>	<u>–</u>
Dividend declared		
Interim dividend of HK1.5 cents per ordinary share (six months ended 31 January 2020: nil)	<u>15,000</u>	<u>–</u>

The interim dividend declared has not been recognised as a liability at the end of the reporting period.

12. OPERATING LEASE ARRANGEMENTS

The Group as lessor

At the end of the period, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	At 31 January 2021 HK\$ '000 (unaudited)	At 31 July 2020 HK\$ '000 (audited)
Within one year	<u>35,000</u>	<u>70,235</u>

13. CAPITAL COMMITMENTS

	At 31 January 2021 HK\$ '000 (unaudited)	At 31 July 2020 HK\$ '000 (audited)
Contracted but not provided for: Purchase of plant and machinery	<u>959</u>	<u>–</u>





MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is a heavy equipment sales and leasing service provider in Hong Kong with over 20 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 leasing.

The Group recorded an increase in profit attributable to owners of the Company for the six months ended 31 January 2021 (the “**Period**”) by approximately 11.9% to approximately HK\$31.0 million from approximately HK\$27.7 million for the six months ended 31 January 2020.

The increase in net profit of the Group for the Period was mainly attributed to (i) the growth in the leasing business of the Group, which was driven by the demand arising from the 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 Route 6 Development; and (ii) the receipt of subsidies under the Employment Support Scheme of the Hong Kong Government.

Earnings per share for the Period was approximately HK3.10 cents, representing an increase of approximately 11.9% compared with approximately HK2.77 cents for the same period in 2020.

The outbreak of the Coronavirus Disease 2019 (“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 many uncertainties. The industry in which the Group operates 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 2021-22 Budget Speech, the government will continue to invest in infrastructure projects. In the next few years, the average annual capital works expenditure is expected to exceed HK\$100 billion and the annual total construction output will increase to around HK\$300 billion. Besides, due to the commencement of several large-scale infrastructure projects, such as the Three Runway System of the Hong Kong International Airport, the 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. While monitoring closely the impact of 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 recorded a decrease in revenue for the Period by approximately 25.3% to approximately HK\$262.2 million from approximately HK\$351.0 million for the six months ended 31 January 2020. The decrease was mainly attributable to the decrease in sales of heavy equipment and spare parts of approximately HK\$117.2 million, which was partially offset by an increase in leasing income of approximately HK\$25.1 million and an increase in income from provision of maintenance and ancillary services by approximately HK\$3.3 million.





Cost of revenue

The Group's cost of revenue amounted to approximately HK\$213.4 million for the Period, representing a decrease of approximately 27.6% (six months ended 31 January 2020: approximately HK\$294.7 million). Cost of revenue mainly comprised costs of machinery, equipment and spare parts, depreciation, freight and transportation costs, repairs and maintenance costs, staff costs for operators, technicians and inspectors and sub-leasing fee. The decrease was mainly driven by a decrease in sales of heavy equipment and spare parts by approximately 45.0% for the Period. Nevertheless, the cost of leasing business increased by approximately 48.6%, which was mainly attributable to an increase in staff cost of operators.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 13.3% from approximately HK\$56.3 million for the six months ended 31 January 2020 to approximately HK\$48.8 million for the Period, with gross profit margin at approximately 18.6% (six months ended 31 January 2020: approximately 16.0%). The decrease in gross profit was mainly attributable to a decrease in gross profit of the sales of heavy equipment and spare parts by approximately HK\$8.4 million. Despite the decrease in gross profit of the sales business, the gross profit of leasing business and the provision of maintenance and ancillary services increased by approximately HK\$0.6 million and HK\$0.3 million, respectively.

Other income and net gains

Other income and net gains increased by approximately 406.3% from approximately HK\$1.6 million for the six months ended 31 January 2020 to approximately HK\$8.1 million for the Period. The increase was mainly due to the receipt of subsidies under the Employment Support Scheme of the Hong Kong Government of approximately HK\$7.1 million.

Administrative and other operating expenses

The administrative and other operating expenses decreased by approximately HK\$0.7 million or approximately 3.5% from approximately HK\$20.1 million for the six months ended 31 January 2020 to approximately HK\$19.4 million for the Period. The decrease in administrative and other operating expenses was mainly attributable to the decrease in audit and legal and professional fees (including fees for the Transfer of Listing) of approximately HK\$0.7 million, insurance expenses of approximately HK\$0.8 million, marketing expenses of approximately HK\$0.4 million, operating lease charges of approximately HK\$0.4 million and travelling expenses of approximately HK\$0.3 million, which was partially offset by the increase in staff costs (including Directors' emoluments) of approximately HK\$1.6 million and net foreign exchange loss of approximately HK\$0.2 million.

Finance costs

The finance costs decreased by approximately HK\$2.3 million or approximately 63.9% from approximately HK\$3.6 million for the six months ended 31 January 2020 to approximately HK\$1.3 million for the Period. The decrease was in line with the decrease in average bank borrowings for the Period as compared to those of the same period last year.

Income tax expense

The income tax expense decreased by approximately HK\$1.1 million or approximately 18.7% for the Period compared with the same period last year. The decrease was mainly due to a decrease in deferred tax liabilities of approximately HK\$3.8 million as a result of a decrease in accelerated tax depreciation charge for the Period.

Profit and total comprehensive income for the Period

As a result of the foregoing, the Group's profit and total comprehensive income for the Period increased by approximately 11.9% from approximately HK\$27.7 million for the six months ended 31 January 2020 to approximately HK\$31.0 million for the Period, with the net profit margin of the Group increased to approximately 11.8% for the Period as compared to approximately 7.9% for the six months ended 31 January 2020.





Liquidity and financial resources

The Group financed the operations primarily with cash flow from operations and bank borrowings. The current ratio (as calculated by dividing the total current assets by the total current liabilities) of the Group as at 31 January 2021 was approximately 3.7 times (31 July 2020: approximately 3.3 times). As at 31 January 2021, the Group had bank and cash balances of approximately HK\$72.0 million (31 July 2020: approximately HK\$69.3 million). The increase in bank and cash balances was mainly due to the operating cash inflow during the Period.

As at 31 January 2021, the Group had bank borrowings with maturity less than 1 year of approximately HK\$68.3 million (31 July 2020: approximately HK\$72.9 million). The gearing ratio, calculated based on the total debts (including bank borrowings and lease liabilities) divided by the total equity at the end of the period/year and multiplied by 100%, was approximately 17.3% as at 31 January 2021 (31 July 2020: approximately 19.1%). 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 the funding requirements.

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 January 2021, 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.

Foreign exchange exposure

The Group has certain exposure to foreign currency risk as most of the business transactions, assets and liabilities are principally denominated in HK\$, Japanese Yen (“JPY”), Renminbi (“RMB”), Euro (“EUR”) and US dollar (“USD”). There is a currency difference between 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.

Material acquisitions or disposals, significant investments, and plans for material investments or capital assets

During the Period, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures. As at 31 January 2021, the Group had capital commitments contracted for but not yet incurred of approximately HK\$1.0 million. Save as disclosed above, as at 31 January 2021, the Group did not have any significant investments or any other plans for material investments or capital assets.

Charges of assets and contingent liabilities

As at 31 January 2021, the Group did not have any charges on the Group’s assets for its bank borrowings.

As at 31 January 2021, the Group did not have any material contingent liabilities (31 July 2020: Nil).





Employees and remuneration policies

As at 31 January 2021, the Group employed 240 (31 July 2020: 211) full-time employees. The total staff costs (including Directors' remuneration) were approximately HK\$60.6 million for the Period (six months ended 31 January 2020: approximately HK\$41.8 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 schemes. The Company adopted a share option scheme on 30 June 2017 for the purpose of enabling the Company to grant options to, among others, the employees and directors of the Group as incentives or rewards 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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1.5 cents per ordinary share for the Period (the "Interim Dividend"), payable in cash on or about Tuesday, 27 April 2021 to the Shareholders whose names appear on the Register of Members on Thursday, 15 April 2021.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders' entitlement to the Interim Dividend, the Register of Members will be closed from Monday, 12 April 2021 to Thursday, 15 April 2021, both days inclusive, during which period no transfer of the Company's shares shall be registered. In order to qualify for the Interim Dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 9 April 2021.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 January 2021, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “SFO”)), which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “Model Code”), were set out as follows:

Interests in the Company

Long position in the ordinary shares of the Company (the “Shares”)

Directors	Nature of interest	Number of Shares held	Percentage of the Company's issued Shares
Mr. Chow Luen Fat (“Mr. Chow”)	Interest in a controlled corporation (Note)	750,000,000	75%
Ms. Cheng Ju Wen (“Ms. Cheng”)	Interest in a controlled corporation (Note)	750,000,000	75%

Note: These Shares are held by Generous Way Limited (“Generous Way”), which is beneficially owned as to 50% by Mr. Chow, the chairman of the Board, the chief executive officer of the Company and an executive Director and 50% by Ms. Cheng, the non-executive Director. Mr. Chow and Ms. Cheng are spouses. Under the SFO, each of Mr. Chow and Ms. Cheng is deemed to be interested in the same number of Shares held by Generous Way.





Interests in associated corporation of the Company

Long position in the ordinary shares of an associated corporation

Directors	Name of associated corporation	Nature of interest	Number of ordinary shares held	Percentage of issued ordinary shares
Mr. Chow Luen Fat	Generous Way Limited	Beneficial owner	50	50%
Ms. Cheng Ju Wen	Generous Way Limited	Beneficial owner	50	50%

Save as disclosed above, as at 31 January 2021, none of the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDER

As at 31 January 2021, so far as the Directors are aware, the following entity (other than the Directors and the chief executive of the Company) had interests or short positions in the Shares or underlying Shares, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in the Shares

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

Save as disclosed above, as at 31 January 2021, the Directors were not aware of any persons who or entities which had interests or short positions in the Shares or underlying Shares, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE PRACTICES

Code provision A.2.1 of the Corporate Governance Code (the “CG Code”) contained in each of Appendix 14 to the Listing Rules and Appendix 15 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) (applicable to the Company during the relevant periods after and before the Transfer of Listing) 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 Period.

SHARE OPTION SCHEME

The share option scheme of the Company (the “Share Option Scheme”) is a share incentive scheme adopted on 30 June 2017. No share options were granted or agreed to be granted under the Share Option Scheme for the period from the date of its adoption to 31 January 2021 and up to the date of this report. As such, no share options were outstanding as at 31 January 2021 and no share options were exercised, cancelled or lapsed under the Share Option Scheme from the date of its adoption to the end of the Period on 31 January 2021 and up to the date of this report.





INTERESTS IN COMPETING BUSINESS

During the Period, the Directors were not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates (as defined under the Listing Rules and the GEM Listing Rules, which were respectively applicable to the Company during the relevant periods after and before the Transfer of Listing) that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

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 Period.

COMPLIANCE WITH CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as contained in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard of Dealings**”) as its required standard for Directors’ dealings in the securities of the Company prior to the Transfer of Listing. Following the Transfer of Listing, the Company has adopted the Model Code as its code of conduct for securities transactions by Directors. Following a specific enquiry made by the Company on each of the Directors, each Director has confirmed that he/she had complied with the Required Standard of Dealings and the Model Code (before and after the Transfer of Listing respectively) during the Period.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group’s financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties. All the risks relating to the Group’s business have been set out in the section headed “Risk Factors” in the prospectus of the Company dated 17 July 2017 and the section headed “Material Risks Associated With The Group’s Business” in the announcement of the Company dated 24 September 2020.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any important event affecting the Group, which have occurred subsequent to 31 January 2021 and up to the date of this report.

REVIEW OF INTERIM RESULTS AND INTERIM REPORT

The interim results and this report of the Group for the Period have not been audited, but have been reviewed by the audit committee of the Company (the “**Audit Committee**”) comprising 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.

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

Hong Kong, 23 March 2021

