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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)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
ACQUISITION OF THE ENTIRE EQUITY INTEREST AND THE
SALE DEBT IN THE TARGET COMPANY**

On 15 December 2021 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company), and the Vendors entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares (representing the entire equity interest in the Target Company) and the Sale Debt at the Consideration of HK\$22,000,000 (subject to adjustment) in cash.

As at the date of this announcement, the Target Company is the legal and beneficial owner of the Properties.

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group's consolidated financial statements.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 5% but all of the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Target Company is owned as to 50% by Mr. Chow and 50% by Ms. Cheng. Mr. Chow is a executive Director and Ms. Cheng is a non-executive Director. In addition, each of Mr. Chow and Ms. Cheng is also the director of and is holding 50% of the equity interest in Generous Way Limited, the controlling shareholder of the Company. As such, the Vendors are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and the Consideration is more than HK\$10,000,000, and is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

By virtue of the interests of Mr. Chow and Ms. Cheng in the Agreement, they had abstained from voting in respect of the relevant Board resolution relating to the Agreement. Save for the aforesaid, no other Directors has a material interest in the Agreement and was required to abstain from voting on the Board resolution approving the Agreement.

In accordance with the Listing Rules, any Shareholder who has a material interest in the Agreement shall abstain from voting on the resolution to approve the Agreement at the EGM. As at the date of this announcement, Mr. Chow and Ms. Cheng are the directors and shareholders of Generous Way Limited, which is interested in 750,000,000 Shares, representing 75% of the total issued share capital of the Company. As such, Mr. Chow and Ms. Cheng, being spouses, are deemed to be interested in 750,000,000 Shares held by Generous Way Limited. Accordingly, Generous Way Limited will be required to abstain from voting on the relevant resolutions at the EGM. Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in the Agreement and will be required to abstain from voting on the relevant resolution to approve the Agreement at the EGM.

GENERAL

An Independent Board Committee comprising all of the independent non-executive Directors will be formed to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder. Advent Corporate Finance has been appointed as the Independent Financial Advisor to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders; (iv) the valuation report of the Properties; and (v) a notice convening the EGM will be despatched to the Shareholders on or before 6 January 2022.

The Acquisition is subject to the satisfaction or waiver (as the case may be) of the conditions precedent as set out in the Agreement and may or may not proceed to Completion. Shareholders and potential investors should exercise caution when dealing in the Shares.

ACQUISITION

On 15 December 2021 (after trading hours), the Purchaser (a direct wholly-owned subsidiary of the Company), and the Vendors entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares (representing the entire equity interest in the Target Company) and the Sale Debt at the Consideration of HK\$22,000,000 (subject to adjustment) in cash.

Sale and Purchase Agreement

The principal terms of the Agreement are summarised below:

Date

15 December 2021

Parties

- (i) Vendors: Mr. Chow Luen Fat and Ms. Cheng Ju Wen. Mr. Chow is an executive Director and Ms. Cheng is a non-executive Director. In addition, each of Mr. Chow and Ms. Cheng is the director of and is holding 50% of the equity interest in Generous Way Limited, the controlling shareholder of the Company
- (ii) Purchaser: TLMC Company Limited, a company incorporated in BVI with limited liability and a wholly-owned subsidiary of the Company and its principal activity is investment holding

Assets to be acquired

Pursuant to the terms and conditions of the Agreement, the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares (representing the entire equity interest in the Target Company) and the Sale Debt, free from encumbrances.

Consideration

The Consideration is HK\$22,000,000 (subject to adjustment), which shall be paid by the Purchaser to the Vendors on the date of Completion.

The Consideration will be funded by internal resources of the Group.

Adjustment at Completion

The Vendors undertake to deliver the Proforma Accounts to the Purchaser at least five days prior to the date of Completion. If the NTAV as shown in the Proforma Accounts is more or less than zero, the balance of Consideration shall be adjusted upwards or downwards (as the case may be) accordingly in the manner as follows:

- (a) it shall be added to the balance of Consideration all current tangible assets of the Target Company which are readily convertible into cash or cash equivalents (excluding the Properties, any intangible assets and other fixed assets and deferred tax) as shown in the Proforma Accounts, including rentals receivable (if applicable) (up to and inclusive of the date of Completion), utilities and other miscellaneous deposits, prepaid rates and government rent, and other expenses relating to the Properties (up to but exclusive of the date of Completion); and
- (b) it shall be deducted from the balance of Consideration the value of the liabilities of the Target Company as shown in the Proforma Accounts (excluding the Sale Debt).

Post-Completion adjustment

The Vendors undertake to deliver to the Purchaser within 30 days from the date of Completion the Completion Accounts. If the NTAV as shown in the Completion Accounts is more or less than the NTAV as shown in the Proforma Accounts, the Purchaser or the Vendors (as the case may be) shall pay the difference to the other party within five days from the date of receipt of the Completion Accounts.

Basis of the determination of the Consideration

The Consideration was determined after arm's length negotiations between the Group and the Vendors with reference to (i) the unaudited net liabilities of the Target Company as at 30 November 2021 of approximately HK\$2,129,000; (ii) the appraised value of the Properties as at 6 December 2021 of approximately HK\$22,100,000, as assessed by Greater China Appraisal Limited, an independent professional valuer; and (iii) the amount of the Sale Debt of approximately HK\$22,115,000 as at 30 November 2021.

As informed by the Vendors, the original acquisition costs of the Properties in aggregate was approximately HK\$20,600,000.

The Directors (excluding the independent non-executive Directors whose opinion will be subject to the advice of the Independent Financial Advisor) consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon:

- (a) the Purchaser having obtained Independent Shareholders' approval or other necessary approval as required under the Listing Rules in connection with the entering into and performance of the terms of the Agreement and the transactions contemplated thereunder;
- (b) the Vendors having procured the Target Company to show, give and prove a good title to the Properties in accordance with Sections 13 and 13A of the CPO and the Purchaser having received title reports in respect of a good title to the Properties in accordance with Sections 13 and 13A of the CPO;
- (c) the conduct of a due diligence review by the Purchaser covering, among other things, the business, affairs, operations, assets, liabilities, financial condition, prospects and records of the Target Company having been completed and the results of such due diligence review being satisfactory to the Purchaser;
- (d) the Vendors having in material aspects fully complied with the obligations and otherwise having performed in material aspects all of the covenants and agreements under the Agreement;
- (e) the warranties by the Vendors remaining true and accurate in all material respects and not misleading in any material respect as at the date of Completion; and
- (f) there being no material adverse effect in the business or financial condition of the Target Company or the financial markets in general having any material adverse effect on any material assets of the Target Company.

The Purchaser shall be entitled to waive the conditions set out in paragraphs (c) to (f) above.

If the above condition set out in paragraph (a) is not satisfied or waived on or before the Long Stop Date, the Purchaser shall pay for any stamp duty arising from the Agreement and the Agreement shall cease to have effect, and in which case, except for the legal and auditing fees incurred by the Vendors in connection with the Agreement which shall be settled by the Purchaser, none of the parties shall have any claim save for any antecedent breach of the terms of the Agreement.

If the above conditions set out in paragraphs (b) to (f) is not satisfied, or where applicable, waived, on or before the Long Stop Date, the Purchaser shall be entitled to elect at its absolute discretion to claim for damages for breach of the Agreement (if any) or any other rights and remedies. The Vendors shall, jointly or severally, pay for any stamp duty arising from the Agreement and the legal and auditing fees incurred by the Purchaser in connection with the Agreement (if any).

Unless otherwise provided in the Agreement, the stamp duty payable in connection with the sale and purchase of the respective Sale Share and the Sale Debt shall be borne equally by the Purchaser and the respective Vendor.

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group's consolidated financial statements.

INFORMATION ON THE TARGET COMPANY

The Target Company is a limited company incorporated under the laws of Hong Kong and is owned as to 50% by Mr. Chow and 50% by Ms. Cheng. It is principally engaged in property holding.

As at the date of this announcement, the Target Company is the legal and beneficial owner of the Properties.

Information on the Properties

The Properties are located in Yuen Long, New Territories, Hong Kong. The site area of Property I, Property II and Property III are approximately, 2,178 sq. ft., 3,370 sq. ft. and 12,197 sq. ft., respectively. The total site area of the Properties are approximately 17,745 sq. ft.. The Properties are zoned under open storage.

As at the date of this announcement, Property III is leased to an Independent Third Party under a five-year lease and such lease will expire on 31 May 2025. It is intended that Property III will continue to be leased out for rental income after Completion, but the Group will end such tenancy (with two months' notice) if it fails to renew any of its leases or tenancy agreements expiring in 2022 under which it is a tenant, and in that case the Group will use Property III for its own business.

Financial information

Set out below is the audited financial information of the Target Company for the years ended 31 March 2020 and 2021 (prepared in accordance with Hong Kong Small and Medium-sized Entity Financial Reporting Standard) and the unaudited financial information of the Target Company for the eight months ended 30 November 2021:

	For the year ended 31 March 2020 <i>HK\$'000</i> (audited)	For the year ended 31 March 2021 <i>HK\$'000</i> (audited)	For the eight months ended 30 November 2021 <i>HK\$'000</i> (unaudited)
Revenue	16	98	112
Net loss (before tax)	724	743	443
Net loss (after tax)	724	743	443

The unaudited net liabilities of the Target Company as at 30 November 2021 was approximately HK\$2,129,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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.

The Group has recorded a substantial growth of business since its listing of the Shares on GEM (formerly known as the Growth Enterprise Market) of the Stock Exchange in July 2017 (the “**Listing**”), in which the revenue of the Group has grown from HK\$292.8 million for the year ended 31 July 2017 to HK\$485.8 million for the year ended 31 July 2021. To cope with the growth, the size of the area used by the Group as workshops, warehouse facilities and offices has increased from approximately 39,000 sq. ft. in total at the time of Listing in July 2017 to approximately 124,200 sq. ft. as at the date of this announcement. In order to accommodate the expanding businesses, the Directors consider that there is a need to have more space for its operations, including storing of its leasing fleet, conducting maintenance and repair works and adding inventory of equipment and spare parts for sale.

In addition, of all the properties through which the Group operates, seven properties with total area of approximately 108,870 sq. ft. are under tenancy agreements and/or leases. As storage facilities are crucial to the Group’s business operation, the purchase of the Properties helps to attenuate impact when there is fluctuation of rents, and effectively reduces risk of material disruption to the operations of the Group in the event that any of such tenancy agreements and/or leases is terminated.

Moreover, the Properties owned by the Target Company are located in close proximity to the principal place of business of the Group, which allows easy management and minimal travelling time for staff to work in the Properties.

Having considered the above factors, the Directors are of the view that the Acquisition provides a good opportunity for the Group and is in line with the strategic development of the Group.

In light of the above-mentioned reasons, the Directors (excluding the independent non-executive Directors whose opinion will be subject to the advice of the Independent Financial Advisor and Mr. Chow and Ms. Cheng who have material interests in the Acquisition) are of the view that the Agreement, although not entered into in the ordinary and usual course of business of the Group, is on normal commercial terms, and the terms of the Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 5% but all of the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Target Company is owned as to 50% by Mr. Chow and 50% by Ms. Cheng. Mr. Chow is an executive Director and Ms. Cheng is a non-executive Director. In addition, each of Mr. Chow and Ms. Cheng is also the director of and is holding 50% of the equity interest in Generous Way Limited, the controlling shareholder of the Company. As such, the Vendors are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and the Consideration is more than HK\$10,000,000, and is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

By virtue of the interests of Mr. Chow and Ms. Cheng in the Agreement, they had abstained from voting in respect of the relevant Board resolution relating to the Agreement. Save for the aforesaid, no other Directors has a material interest in the Agreement and was required to abstain from voting on the Board resolution approving the Agreement.

In accordance with the Listing Rules, any Shareholder who has a material interest in the Agreement shall abstain from voting on the resolution to approve the Agreement at the EGM. As at the date of this announcement, Mr. Chow and Ms. Cheng are the directors and shareholders of Generous Way Limited, which is interested in 750,000,000 Shares, representing 75% of the total issued share capital of the Company. As such, Mr. Chow and Ms. Cheng, being spouses, are deemed to be interested in 750,000,000 Shares held by Generous Way Limited. Accordingly, Generous Way Limited will be required to abstain from voting on the relevant resolution at the EGM. Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in the Agreement and will be required to abstain from voting on the relevant resolution to approve the Agreement at the EGM.

GENERAL

An Independent Board Committee comprising all of the independent non-executive Directors will be formed to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder. Advent Corporate Finance has been appointed as the Independent Financial Advisor to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders; (iv) the valuation report of the Properties; and (v) a notice convening the EGM will be despatched to the Shareholders on or before 6 January 2022.

The Acquisition is subject to the satisfaction or waiver (as the case may be) of the conditions precedent as set out in the Agreement and may or may not proceed to Completion. Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITION

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition of the Sale Shares and the Sale Debt by the Purchaser from the Vendors pursuant to the terms of the Agreement
“Advent Corporate Finance” or “Independent Financial Advisor”	Advent Corporate Finance Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
“Agreement”	the sale and purchase agreement dated 15 December 2021 and entered into between the Purchaser and the Vendors for the Acquisition
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	Tak Lee Machinery Holdings Limited (德利機械控股有限公司), an exempted company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange (Stock Code: 2102)
“Completion”	completion of the sale and purchase of the Sale Shares and the Sale Debt

“Completion Accounts”	the financial statements audited by certified public accountants (practising) of the Target Company for the period from its date of incorporation to the date of Completion
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration of HK\$22,000,000 (subject to adjustment) payable to the Vendors by the Purchaser for the Acquisition
“CPO”	Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong)
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider and approve, among others, the Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Independent Board Committee”	an independent committee of the Board (which comprises all the independent non-executive Directors) established to advise the Independent Shareholders with regard to the Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders who are not required to abstain from voting under the Listing Rules at the EGM on the ordinary resolution for approving the Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	person(s) or company(ies) which is/are independent of and not connected with any Directors, chief executives, the controlling shareholders and the substantial shareholders of the Company, and the directors and shareholders of any other member of the Group, and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time

“Long Stop Date”	30 June 2022 (or such other date as the Purchaser and the Vendors may agree in writing)
“Mr. Chow”	Mr. Chow Luen Fat, (i) the chairman of the Board, an executive Director and the chief executive officer of the Company; (ii) a director of and a shareholder holding 50% of the equity interest in Generous Way Limited, the controlling shareholder of the Company; and (iii) a director of and a shareholder holding 50% of the equity interest in the Target Company
“Ms. Cheng”	Ms. Cheng Ju Wen, (i) a non-executive Director; (ii) a director of and a shareholder holding 50% of the equity interest in Generous Way Limited, the controlling shareholder of the Company; and (iii) a director of and a shareholder holding 50% of the equity interest in the Target Company
“NTAV”	the aggregate of all tangible assets of the Target Company which are readily convertible into cash or cash equivalents (excluding the Properties, any intangible assets and other fixed assets and deferred tax), less the aggregate of all liabilities (actual, contingent or otherwise but excluding the Sale Debt) and provisions of the Target Company as at the date of Completion
“Proforma Accounts”	comprising a proforma profit and loss account of the Target Company for the period from the beginning of the current financial year to the Completion Date and a proforma balance sheet of the Target Company as at the date of Completion
“Property I”	the piece or parcel of ground in the New Territories in Hong Kong and registered in the Land Registry as Section A of Lot No.170 in Demarcation District No.111 together with the messuages erections and buildings thereon (if any)
“Property II”	the piece or parcel of ground in the New Territories in Hong Kong and registered in the Land Registry as Subsection 3 of Lot No.170B&E in Demarcation District No.111 together with the messuages erections and buildings thereon (if any)
“Property III”	the piece or parcel of ground in the New Territories in Hong Kong and registered in the Land Registry as Lot No.174 in Demarcation District No.111, Yuen Long, New Territories together with the messuages erections and buildings thereon (if any)

“Properties”	all of Property I, Property II and Property III
“Purchaser”	TLMC Company Limited, a company incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company
“Sale Debt”	all debts owing by the Target Company to the Vendors as at Completion
“Sale Shares”	one ordinary share of the Target Company owned by Mr. Chow and one ordinary share of the Target Company owned by Ms. Cheng, which together represent all the issued shares of the Target Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“sq. ft.”	square feet
“Target Company”	Orange Treasure Limited, a limited company incorporated in Hong Kong
“Vendors”	Mr. Chow and Ms. Cheng
“%”	per cent.

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

Hong Kong, 15 December 2021

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.