

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

2021-2022

RESULTS FOR THE SIX MONTHS
ENDED 31 JANUARY 2022



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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

13 to 19 April 2022

Proposed Payment of Interim Dividend

3 May 2022

FINANCIAL HIGHLIGHTS

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2022

The board of directors (the “**Directors**” and the “**Board**”, respectively) of Tak Lee Machinery Holdings Limited (the “**Company**”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 31 January 2022, together with the comparative figures for the corresponding period in 2021.

- The Group recorded a revenue of approximately HK\$181.5 million for the six months ended 31 January 2022, representing a decrease of approximately 30.8% compared with approximately HK\$262.2 million reported for the six months ended 31 January 2021.
- The Group’s profit and total comprehensive income decreased by approximately 44.8% from approximately HK\$31.0 million for the six months ended 31 January 2021 to approximately HK\$17.1 million for the six months ended 31 January 2022.
- Earnings per share for the six months ended 31 January 2022 was approximately HK1.71 cents (six months ended 31 January 2021: approximately HK3.10 cents).
- The Board has resolved to declare an interim dividend of HK1.0 cent per ordinary share of the Company, payable to the shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 19 April 2022. It is expected that the interim dividend will be paid in cash on or about Tuesday, 3 May 2022.

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

For the six months ended 31 January 2022

	Note	Six months ended 31 January	
		2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Revenue	3	181,486	262,201
Cost of revenue		<u>(141,352)</u>	<u>(213,443)</u>
Gross profit		40,134	48,758
Other income and net gains	3	484	8,136
Reversal of allowance/(allowance) for trade and lease receivables		176	(477)
Administrative and other operating expenses		<u>(20,016)</u>	<u>(19,419)</u>
Profit from operations		20,778	36,998
Finance costs		<u>(450)</u>	<u>(1,296)</u>
Profit before tax		20,328	35,702
Income tax expense	4	<u>(3,225)</u>	<u>(4,745)</u>
Profit and total comprehensive income for the period attributable to owners of the Company	5	<u>17,103</u>	<u>30,957</u>
Earnings per share			
– Basic and diluted (HK cents per share)	6	<u>1.71</u>	<u>3.10</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2022

	Note	At 31 January 2022 HK\$'000 (unaudited)	At 31 July 2021 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	7	146,461	153,903
Right-of-use assets	7	16,671	19,354
Deposits paid for property, plant and equipment		436	1,230
		163,568	174,487
Current assets			
Inventories		104,521	104,685
Trade and lease receivables	8	76,422	103,240
Prepayments, deposits and other receivables		32,733	18,563
Current tax assets		–	214
Bank and cash balances		108,223	109,211
		321,899	335,913
Current liabilities			
Trade payables	9	6,151	6,204
Other payables and accruals		10,586	7,151
Contract liabilities		5,405	6,275
Lease liabilities		4,123	4,759
Current tax liabilities		4,374	–
Bank borrowings		5,358	30,464
		35,997	54,853
Net current assets		285,902	281,060
Total assets less current liabilities		449,470	455,547
Non-current liabilities			
Lease liabilities		1,112	2,929
Deferred tax liabilities		21,753	23,116
		22,865	26,045
NET ASSETS		426,605	429,502
Capital and reserves			
Share capital	10	10,000	10,000
Reserves		416,605	419,502
TOTAL EQUITY		426,605	429,502

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2022

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 August 2021 (audited)	10,000	92,661	2,620	324,221	429,502
Profit and total comprehensive income for the period	-	-	-	17,103	17,103
Dividend paid (<i>note 11</i>)	-	-	-	(20,000)	(20,000)
At 31 January 2022 (unaudited)	<u>10,000</u>	<u>92,661</u>	<u>2,620</u>	<u>321,324</u>	<u>426,605</u>
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
Dividend paid (<i>note 11</i>)	-	-	-	(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>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 January 2022

	Six months ended	
	31 January	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash generated from operating activities	49,654	19,486
Net cash used in investing activities	(3,234)	(192)
Net cash used in financing activities	(47,369)	(16,742)
Effect of foreign exchange rate changes	(39)	135
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	(988)	2,687
Cash and cash equivalents at beginning of the period	109,211	69,265
	<hr/>	<hr/>
Cash and cash equivalents at end of the period, represented by bank and cash balances	<u>108,223</u>	<u>71,952</u>

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 2022 (the “**Interim Condensed Consolidated Financial Statements**”) 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 changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the Interim Condensed Consolidated Financial Statements are consistent with those presented in the Group’s annual financial statements for the year ended 31 July 2021.

Application of amendments to HKFRSs

The Group has applied 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 2021 for the preparation of the Interim Condensed Consolidated Financial Statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current and prior periods has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these 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	
	2022 HK\$ '000 (unaudited)	2021 HK\$ '000 (unaudited)
Revenue		
Sales of heavy equipment and spare parts	72,387	147,597
Lease of heavy equipment	104,381	109,041
Provision of maintenance and ancillary services	4,718	5,563
	<u>181,486</u>	<u>262,201</u>
Other income and net gains		
Compensation income from suppliers	84	150
Net gain on disposals of property, plant and equipment	180	498
Government grants	–	7,142
Others	220	346
	<u>484</u>	<u>8,136</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)	Provision of 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 2022					
Disaggregated by timing of revenue recognition					
Point in time	72,387	-	4,718	-	77,105
Over time	-	104,381	-	-	104,381
External revenue	<u>72,387</u>	<u>104,381</u>	<u>4,718</u>	<u>-</u>	<u>181,486</u>
Segment results	<u>2,403</u>	<u>25,728</u>	<u>210</u>	<u>(8,013)</u>	<u>20,328</u>
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>

(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	
	2022 HK\$ '000 (unaudited)	2021 HK\$ '000 (unaudited)
Current tax – Hong Kong Profits Tax		
Provision for the period	4,618	8,497
Over-provision in prior year	(30)	–
	<u>4,588</u>	<u>8,497</u>
Deferred tax	<u>(1,363)</u>	<u>(3,752)</u>
	<u><u>3,225</u></u>	<u><u>4,745</u></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, the first HK\$2 million of assessable profits of qualifying group entity established in Hong Kong will be taxed at 8.25% (2021: 8.25%), and profits above that amount will be subject to the tax rate of 16.5% (2021: 16.5%). The profits of the group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5% (2021: 16.5%).

5. PROFIT FOR THE PERIOD

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

	Six months ended 31 January	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Auditor's remuneration	360	278
Cost of inventories sold	61,177	126,359
Depreciation		
– Property, plant and equipment	19,470	15,931
– Right-of-use assets	2,683	2,179
Foreign exchange loss, net	77	188
Transfer of Listing expenses	–	2,339
Net gain on disposals of property, plant and equipment	(180)	(498)
Operating lease charges in respect of:		
– Office premises	247	321
– Machineries	7,941	9,999
Reversal of allowance for inventories (included in cost of inventories sold), net	(58)	(43)
Reversal of impairment of property, plant and equipment, net	–	(2)
Staff costs (including Directors' emoluments)		
– Fees, salaries, allowances, bonus and others	51,757	57,710
– Retirement benefit scheme contributions	1,786	1,898
– Quarters payments	–	1,008
	<u>53,543</u>	<u>60,616</u>

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	
	2022 HK\$ '000 (unaudited)	2021 HK\$ '000 (unaudited)
Earnings:		
Profit attributable to owners of the Company	<u>17,103</u>	<u>30,957</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 weighted average 1,000,000,000 ordinary shares (six months ended 31 January 2021: 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 2022 and 2021.

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

During the six months ended 31 January 2022, the Group acquired items of property, plant and equipment with cost of approximately HK\$4,208,000 (six months ended 31 January 2021: approximately HK\$690,000). Items of property, plant and equipment with a net book value of approximately HK\$nil were disposed of during the six months ended 31 January 2022 and six months ended 31 January 2021, resulting in a net gain on disposal of approximately HK\$180,000 (six months ended 31 January 2021: approximately HK\$498,000).

During the six months ended 31 January 2022, property, plant and equipment of approximately HK\$19,983,000 (six months ended 31 January 2021: approximately HK\$4,429,000) were reclassified from inventories held for sale.

During the six months ended 31 January 2022, property, plant and equipment of approximately HK\$11,753,000 (six months ended 31 January 2021: approximately HK\$12,029,000) were reclassified to inventories 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 2022, the Group recognised approximately HK\$nil (six months ended 31 January 2021: approximately HK\$2,751,000) of right-of-use assets and approximately HK\$nil (six months ended 31 January 2021: approximately HK\$2,871,000) of lease liabilities.

8. TRADE AND LEASE RECEIVABLES

	At 31 January 2022 HK\$'000 (unaudited)	At 31 July 2021 HK\$'000 (audited)
Trade and lease receivables	76,723	103,717
Less: Impairment loss	(301)	(477)
	<u>76,422</u>	<u>103,240</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 2022 HK\$'000 (unaudited)	At 31 July 2021 HK\$'000 (audited)
0 to 90 days	54,806	68,648
91 to 180 days	11,384	22,313
181 to 365 days	8,620	4,224
Over 365 days	1,913	8,532
	<u>76,723</u>	<u>103,717</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 2022 HK\$'000 (unaudited)	At 31 July 2021 HK\$'000 (audited)
0 to 90 days	6,100	6,140
91 to 180 days	51	64
	<u>6,151</u>	<u>6,204</u>

10. SHARE CAPITAL

	Number of shares	Amount HK\$ '000
Authorised:		
Ordinary shares of HK\$0.01 each		
As at 31 July 2020, 31 July 2021, 1 August 2021 and 31 January 2022 (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 2020, 31 July 2021, 1 August 2021 and 31 January 2022 (unaudited)	<u>1,000,000,000</u>	<u>10,000</u>

11. DIVIDEND

	Six months ended 31 January	
	2022 HK\$ '000	2021 HK\$ '000
Dividend paid		
2020 final dividend of HK1.0 cent per ordinary share	–	10,000
2021 final dividend of HK2.0 cents per ordinary share	<u>20,000</u>	<u>–</u>
	<u>20,000</u>	<u>10,000</u>
Dividend declared		
Interim dividend of HK1.0 cent per ordinary share (six months ended 31 January 2021: HK1.5 cents)	<u>10,000</u>	<u>15,000</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 lessee**

As at 31 January 2022, the outstanding lease commitments relating to the office premises and machineries are approximately HK\$206,000 (31 July 2021: HK\$732,000).

The Group as lessor

As at 31 January 2022, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	At 31 January 2022 HK\$'000 (unaudited)	At 31 July 2021 HK\$'000 (audited)
Within one year	<u>19,593</u>	<u>19,808</u>

13. CAPITAL COMMITMENTS

	At 31 January 2022 HK\$'000 (unaudited)	At 31 July 2021 HK\$'000 (audited)
Contracted but not provided for: Purchase of plant and machinery	<u>1,404</u>	<u>1,405</u>

14. MATERIAL RELATED PARTY TRANSACTIONS

On 15 December 2021, a direct wholly-owned subsidiary of the Company (the "Purchaser") entered into a sale and purchase agreement with Mr. Chow Luen Fat ("Mr. Chow", the chairman of the Board (the "Chairman"), an executive Director and the chief executive officer of the Company (the "CEO")) and Ms. Cheng Ju Wen ("Ms. Cheng", a non-executive Director) (the "Vendors"), pursuant to which the Purchaser agreed to acquire and the Vendors agreed to sell the sale shares (representing the entire equity interest in Orange Treasure Limited (the "Target Company")) and the sale debt (representing all debts owed by the Target Company to the Vendors on the relevant completion date) at the consideration of HK\$22,000,000 in cash (the "Acquisition").

The Target Company was owned as to 50% by Mr. Chow and 50% by Ms. Cheng. Mr. Chow and Ms. Cheng were connected persons of the Company under Chapter 14A of the Listing Rules and accordingly, the Acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules and was subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Details of the transaction were set out in the Company's announcement dated 15 December 2021 and circular dated 13 January 2022. The ordinary resolution in relation to the Acquisition was duly passed by way of poll at the extraordinary general meeting of the Company held on 8 February 2022. The transaction was completed on 28 February 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is a heavy equipment sales and leasing service provider in Hong Kong with over 21 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 a decrease in profit attributable to owners of the Company for the six months ended 31 January 2022 (the “**Period**”) by approximately 44.8% to approximately HK\$17.1 million from approximately HK\$31.0 million for the six months ended 31 January 2021.

The decrease in net profit of the Group for the Period was mainly attributed to (i) the absence of government grant during the Period, as opposed to the non-recurring government grants of approximately HK\$7.1 million under the Employment Support Scheme of Hong Kong received by the Group during the six months ended 31 January 2021; and (ii) the decrease in sales of heavy vehicles, as the demand of heavy vehicles has slowed down in view of the uncertainties from the new wave of coronavirus disease 2019 (COVID-19) cases and in the economic outlook during the Period. Saved as disclosed above, during the Period, the supply chain and the operations of the Group were not materially and adversely affected by the COVID-19 pandemic.

Earnings per share for the Period was approximately HK1.71 cents, representing a decrease of approximately 44.8% compared with approximately HK3.10 cents for the same period in 2021.

The COVID-19 pandemic continues to pose 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. With the formulation of the Northern Metropolis Development Strategy and Lantau Tomorrow Vision by the Hong Kong Government, together with other infrastructures and projects in Hong Kong, the average annual capital works expenditure for infrastructure works is expected to exceed HK\$100 billion in the next few years according to the 2022-23 Budget Speech. Hence, the Group believes that the demand for its heavy equipment will remain strong in the coming years.

To capture business opportunities, the Group is committed to the diversification of its supplier base and product offering. For instance, with the growing demand of construction site safety products, the Group has introduced new technological products recently. In March 2022, the Group became the sole dealer of Xwatch Safety Solutions Ltd. (a United Kingdom brand) for the supply of machine safety and control systems for height and slew control, rated capacity index and stability of equipment. Furthermore, the Group also became the authorised dealer of VIA brand (a Taiwan brand) for the supply of Mobile360 heavy equipment safety system.

While monitoring closely the impact of COVID-19 on the industry in which the Group operates, 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 30.8% to approximately HK\$181.5 million from approximately HK\$262.2 million for the six months ended 31 January 2021. The decrease was mainly attributable to the decreases in sales of heavy equipment and spare parts of approximately HK\$75.2 million and leasing income of approximately HK\$4.7 million.

Cost of revenue

The Group's cost of revenue amounted to approximately HK\$141.4 million for the Period, representing a decrease of approximately 33.7% (six months ended 31 January 2021: approximately HK\$213.4 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 the decrease in sales of heavy equipment and spare parts by approximately 51.0% as well as the decreases in staff cost of operators and sub-leasing rental fee of the leasing segment for the Period.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 17.8% from approximately HK\$48.8 million for the six months ended 31 January 2021 to approximately HK\$40.1 million for the Period. 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\$7.5 million and a decrease in gross profit of leasing business by approximately HK\$1.1 million.

The gross profit margin increased to approximately 22.1% for the Period as compared to approximately 18.6% for the six months ended 31 January 2021. The increase was mainly driven by the higher proportion of revenue contribution from leasing segment and its relatively higher gross profit margin as compared with that of the sales segment.

Other income and net gains

Other income and net gains decreased by approximately 94.1% from approximately HK\$8.1 million for the six months ended 31 January 2021 to approximately HK\$0.5 million for the Period. The decrease was mainly due to the absence of the non-recurring subsidies under the Employment Support Scheme of the Hong Kong Government of approximately HK\$7.1 million during the Period.

Reversal of allowance/(allowance) for trade and lease receivables

The Group has recognised allowance for trade and lease receivables of approximately HK\$0.5 million under the expected credit loss model for the six months ended 31 January 2021. In view of the improvement in the credit control and a decrease in expected credit losses for the Period, the Group has recognised reversal of allowance for trade and lease receivables of approximately HK\$0.2 million for the Period.

Administrative and other operating expenses

The administrative and other operating expenses increased by approximately HK\$0.6 million or approximately 3.1% from approximately HK\$19.4 million for the six months ended 31 January 2021 to approximately HK\$20.0 million for the Period. The increase in administrative and other operating expenses was mainly attributable to the increases in depreciation expenses of right-of-use assets and property, plant and equipment amounting to approximately HK\$1.2 million, operating costs of approximately HK\$0.7 million and staff costs (included Directors' emoluments but excluding quarters payments) of approximately HK\$0.7 million, which is offset by the decrease in legal and professional fees of approximately HK\$2.0 million.

Finance costs

The finance costs decreased by approximately HK\$0.8 million or approximately 61.5% from approximately HK\$1.3 million for the six months ended 31 January 2021 to approximately HK\$0.5 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\$1.5 million or approximately 32.0% for the Period compared with the same period last year. The decrease was mainly due to a decrease in assessable profits 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 decreased by approximately 44.8% from approximately HK\$31.0 million for the six months ended 31 January 2021 to approximately HK\$17.1 million for the Period, with the net profit margin of the Group decreased to approximately 9.4% for the Period as compared to approximately 11.8% for the six months ended 31 January 2021.

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 2022 was approximately 8.9 times (31 July 2021: approximately 6.1 times). As at 31 January 2022, the Group had bank and cash balances of approximately HK\$108.2 million (31 July 2021: approximately HK\$109.2 million).

As at 31 January 2022, the Group had bank borrowings with maturity less than 1 year of approximately HK\$5.4 million (31 July 2021: approximately HK\$30.5 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 2.5% as at 31 January 2022 (31 July 2021: approximately 8.9%). The Board considered 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 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 2022, 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

Save as disclosed in note 14 to the Interim Condensed Consolidated Financial Statements, the Group did not have other material acquisitions or disposals of subsidiaries, associates and joint ventures during the Period. As at 31 January 2022, the Group had capital commitments contracted for but not yet incurred of approximately HK\$1.4 million. Save as disclosed above, as at 31 January 2022, 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 2022, the Group did not have any charges on the Group’s assets for its bank borrowings.

As at 31 January 2022, the Group did not have any material contingent liabilities (31 July 2021: Nil).

Employees and remuneration policies

As at 31 January 2022, the Group employed 226 (31 July 2021: 215) full-time employees. The total staff costs (including Directors' remuneration) were approximately HK\$53.5 million for the Period (six months ended 31 January 2021: approximately HK\$60.6 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 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 HK1.0 cent per ordinary share for the Period (the "Interim Dividend"), payable in cash on or about Tuesday, 3 May 2022 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company (the "Register of Members") on Tuesday, 19 April 2022.

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 Wednesday, 13 April 2022 to Tuesday, 19 April 2022, 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 Tuesday, 12 April 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 January 2022, 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	Interest in a controlled corporation (Note)	750,000,000	75%
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, the CEO 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	Generous Way Limited	Beneficial owner	50	50%
Ms. Cheng	Generous Way Limited	Beneficial owner	50	50%

Save as disclosed above, as at 31 January 2022, 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 2022, so far as the Directors were 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 2022, 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 C.2.1 of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the 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 is the Chairman and the CEO. 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 C.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 2022 and up to the date of this report. As such, no share options were outstanding as at 31 January 2022 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 2022 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) 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 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 Model Code 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.

CHANGES IN INFORMATION OF DIRECTORS

Changes in information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Mr. Law Tze Lun, an independent non-executive Director, resigned as an independent non-executive director, the chairman of the audit committee, and a member of each of the remuneration committee and nomination committee of Justin Allen Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1425) with effect from 1 December 2021.

Dr. Wong Man Hin Raymond, an independent non-executive Director, was re-designated as the chairman of the board of directors of Raymond Industrial Limited (a company listed on the Main Board of the Stock Exchange, stock code: 229) with effect from 10 December 2021.

IMPORTANT EVENTS AFTER THE PERIOD

Save as disclosed in note 14 to the Interim Condensed Consolidated Financial Statements, there are no other significant events occurred subsequent to the Period.

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, 28 March 2022