ATAL

Analogue Holdings Limited
安樂工程集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1977)

2023

Interim Report

About Analogue Holdings Limited

Established in 1977, Analogue Holdings Limited (the "Company", together with its subsidiaries, collectively the "Group") (stock code: 1977) is a leading electrical and mechanical ("E&M") engineering service provider headquartered in Hong Kong, with operations in Macau, Mainland China, the United States and the United Kingdom. Serving a wide spectrum of customers from public and private sectors, the Group provides multi-disciplinary and comprehensive E&M engineering and technology services in four major segments, including Building Services, Environmental Engineering, Information, Communications and Building Technologies ("ICBT") and Lifts & Escalators.

The Group also manufactures and sells Anlev lifts and escalators internationally and has entered into an alliance with Transel Elevator & Electric Inc., one of the largest independent lifts and escalators companies in New York, the United States. The Group's associate partner, Nanjing Canatal Data Centre Environmental Tech Company Limited (603912.SS), specialises in manufacturing of precision air conditioners.

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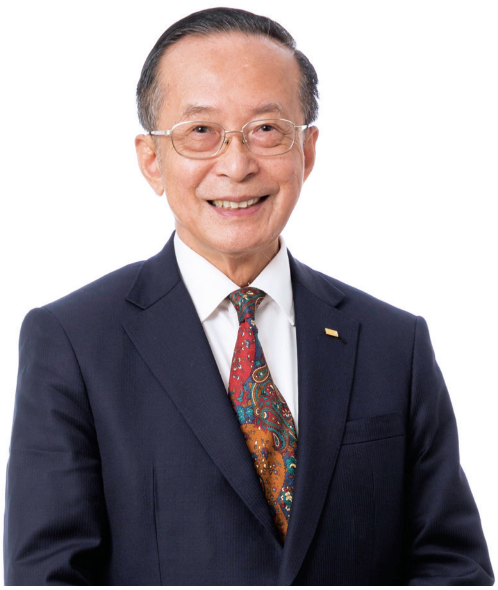
Financial Highlights

	For the six months ended 30 June	
	2023	2022
	HK$'M	HK$'M
Revenue	**2,841.1**	3,021.7
Gross profit	**453.8**	457.6
Profit attributable to owners of the Company	**237.5**	59.2
Basic earnings per share	**HK$0.17**	HK$0.04

The Board has resolved to pay an interim dividend of HK8.52 cents per share for the six months ended 30 June 2023.[i]

(i) The interim dividend for the six months ended 30 June 2023 of HK8.52 cents per share, amounted to HK$118.9 million in aggregate, representing a dividend payout ratio of 50%, based on the unaudited net profit of HK$237.5 million.

Chairman's Statement



"Our three strategic pillars of 'New Technology', 'New Market' and 'New Business Model' continue to underpin our position in the industry, allowing us to be well-placed to seize new opportunities across different markets."

While the global macroeconomic headwinds have persisted, the relaxation of COVID-related measures has provided one ray of light. Market anxiety has gradually given way to guarded optimism as the post-pandemic era has commenced. In Hong Kong, the border openings have uplifted the spirits of residents, with expectations growing for the eventual recovery of the local economy.

As for the Group, we believe we are well-positioned to capture the growing opportunities in the market, not only in Hong Kong but also in our footholds in the United Kingdom, the United States, the Greater Bay Area and beyond. While high contracts-in-hand of HK$12,276 million were recorded during the period, efforts have also been made in generating recurring revenue streams, which saw new maintenance contracts of the Building Services segment grow by 313% to HK$548.6 million. We will continue to leverage our diversified business operations, leading position and technological strengths to achieve business growth.

Realign for Growth and Going Global

As always, we are mindful of promoting synergies across business segments to enhance profitability and efficiency. In fuelling our growth, we have established a new business development unit, Smart Data Automation ("SDA"), during the period. The unit is expected to provide strong support for the Group's core businesses in exploring digital business development opportunities.

Our three strategic pillars of "New Technology", "New Market", and "New Business Model" continue to underpin our position in the industry, allowing us to be well-placed to seize new opportunities across different markets. Testifying to this is our business presence in the United Kingdom and United States. We trust that having business operations in these key geographical locations, together with our new business development unit, will facilitate exchanges of knowledge, ideas and expertise, leading to the generation of synergies, and ultimately the fortification of our position within the industry, which is the overriding objective of our mission to "Go Global".

Chairman's Statement

Investing in the Future

Our technological capabilities continue to be among our greatest assets, with which we have been able to leverage in reinforcing our market position. As evident in the fruits of our research and development ("R&D") team, they have enabled the Group to be an early adopter of technologies to accelerate digital transformation and development of proprietary software, such as Digital Twin technology for real-time analytics. These are also the key technologies for SDA which could be adopted across various business segments such as Environmental Engineering, and Information, Communications and Building Technologies ("ICBT"). Coupled with our ability to empower the Group to drive innovation and support environmental sustainability to assist businesses in achieving their ESG targets, we are ready to sail and stay ahead of the game.

Our R&D team constitutes just one member of our large cohesive family, with other members playing important roles for the benefit of the whole. To ensure that our talent pool is of the highest calibre and meets the Group's needs in the future, we provide continuous training that is underpinned by various staff engagement activities, allowing us to both retain and recruit talent and directly tackle the industry-wide labour shortage.

Looking ahead

As we look ahead, the latest projections made by the Construction Industry Council will be of interest to all industry players. Considering the current market situation, post-pandemic developments and data pertaining to the public and private sectors, construction expenditure is projected to reach between HK$240 billion and HK$375 billion per year in the next 10 years.

We believe these aforementioned factors, plus the reopening of borders, are among the key contributors to the upsurge in opportunities presented to the Group, all of which we are well-prepared to grasp in our drive to achieve organic growth.

We also recognise that there are growing opportunities beyond Hong Kong. With respect to our Lifts and Escalators segment, we have recently acquired a company in the United Kingdom that principally engages in lift installations in high-rise buildings. The acquired company has expanded the Group's service offerings, which now span from design and customisation, manufacturing, sales and installation, refurbishment and maintenance of lifts, escalators and moving walkways.

Another development of importance is the rise of environmental concerns around the globe, particularly in Europe. Consequently, our Environmental Engineering segment has witnessed a notable increase in opportunities. We will capitalise on these opportunities as part of our "Go Global" initiative and business expansion drive.

While the future may look encouraging, we will continue to remain vigilant, closely monitor the macro environment, and ensure that the Group will be able to overcome difficulties with confidence, ingenuity and professionalism, all the while maintaining at the forefront of the industry.

Dr. Poon Lok To, Otto
Chairman

Hong Kong, 25 August 2023

Management Discussion and Analysis

INTERIM BUSINESS REVIEW

Overview

The Group recorded total consolidated net profit of HK$237.5 million for the six months ended 30 June 2023. This result represents a significant year-on-year increase of 301.4%. The significant increase in profit is mainly attributable to the fact that the Group recognised a dilution gain of HK$124.1 million upon completion of a private placement by an associate of the Company during the reporting period. (six months ended 30 June 2022: HK$59.2 million including a special provision of HK$60 million which was made during the first six months of 2022, being provision made for the Group's potential litigation liabilities, the matters of which have been dealt with and resolved in November 2022)

The Group has been able to maintain contracts-in-hand of HK$12,276.0 million as at 30 June 2023 (30 June 2022: HK$12,918.6 million) and generate revenue of HK$2,841.1 million for the six months ended 30 June 2023 (six months ended 30 June 2022: HK$3,021.7 million).

As of 30 June 2023, the Group's data centre business secured a high order intake of HK$608.7 million, representing an increase of 98.2% over the same period in 2022, laying a strong foundation for the future development of the core business.

During the reporting period, the Group continued to actively engage in tendering activities and submitted a total of 570 tenders or quotations valued at over HK$1 million each.

While the net profit increased, the Group's consolidated gross profit in the first half of 2023 at HK$453.8 million was slightly lower by 0.8% as compared to the corresponding period in 2022, mainly due to a number of exceptional items, such as delays in the works of major projects and the provision for losses made in certain projects during the reporting period. Notwithstanding experiencing a slight decrease in gross profit, the Group remains committed to meeting the needs of customers in both the private and public sectors. The Group is also investing in digital transformation of smart building technologies and the timely introduction of innovative solutions, which enable the Group to provide customers with the latest and most competitive technologies on the market.

Revenue
HK$2,841.1 million

Gross profit margin
16.0%

Contracts-in-hand
HK$12,276.0 million

Profit attributable to owners of the Company
HK$237.5 million

Management Discussion and Analysis

The Group's success can be attributed not only to its engineering and technical capabilities, but also to its commitment to upholding business ethics and preventing conflicts of interest. Our staff must comply with our Code of Conduct, which contains strict standards and promotes transparency and professionalism, in line with our core values of integrity and customer centricity. In order to enhance our operational and management efficiency and to fully implement best industry practices, we have reorganised our operations units, appointed new personnel and developed new procedures.

Going forward, the Group will continue to explore potential synergistic business opportunities and equity partnerships, such as Public Private Partnerships for "One Belt One Road" projects, and implement projects more effectively and sustainably, leveraging the expansion of our business in the United States (the "US") and European markets in recent years.

We are currently revitalising an industrial building in Kwai Chung with the aim of utilising it as the headquarters of our operational units. The revitalised building, which has been named ATAL Tower, will improve operations and facilitate collaboration between teams to promote synergies and increase productivity. The integrated headquarters are scheduled to become operational in the second quarter of 2024.

Building Services

As of 30 June 2023, the Building Services segment had contracts-in-hand valued at HK$6,150.3 million (30 June 2022: HK$6,390.9 million). The total value of new contracts received in the first half of 2023 was HK$2,460.5 million (six months ended 30 June 2022: HK$3,534.1 million).

Delivering on the order book throughout 2023, revenue for our Building Services segment in the first half of 2023 was HK$1,748.0 million (six months ended 30 June 2022: HK$2,035.6 million).

Recurring revenue streams from infrastructure operations, data centres and housing programmes were strengthened by new maintenance contracts of HK$548.6 million secured in the first half of 2023 (six months ended 30 June 2022: HK$132.8 million).

The Group has maintained its industry leadership position in this field with substantial market share and solid reputation amongst prestigious customers. Its data centre team has had notable success in securing a number of key projects valued at over HK$608.7 million, and we have also commenced a number of large-scale data centre projects for a major data centre service provider in Hong Kong. Leveraging on the Group's significant role in a number of large-scale projects in Macau, we are currently executing a major contract for a sizeable hotel development.

The Group also continues to adopt technologies such as Building Information Modelling ("BIM") and Multi-trade Integrated Mechanical, Electrical, and Plumbing ("MiMEP") to enhance productivity, safety, and quality while attracting and retaining young talent through innovative methods.

Environmental Engineering

As of 30 June 2023, the Environmental Engineering segment had contracts-in-hand valued at HK$4,598.9 million (30 June 2022: HK$4,952.9 million), including seven new contracts or significant variation orders that underscore our expertise in quality water, wastewater, and solid waste infrastructure project management services. These projects, which cover environmental protection, water supply, waste management and public housing, will support the sustainable development of Hong Kong.

Delivering on the order book throughout 2023, revenue for our Environmental Engineering segment in the first half of 2023 was HK$622.5 million (six months ended 30 June 2022: HK$499.5 million).

The Group has introduced a number of innovative models for the reinforcement, protection, operation and maintenance of wastewater treatment plants to extend their lifespan and ensure that they provide optimal serviceability for Hong Kong. In addition, the Group has participated in operation and maintenance projects for electrical and mechanical works to enhance water, sewage and solid waste management.

Our environmental engineering team also offers Engineering, Procurement, and Construction (EPC) and turnkey solutions to enhance the Group's competitiveness.

During the reporting period, tendering activities outside Hong Kong and the Mainland China included water and wastewater treatment work in Batangas, Laguna Lake River and Pasig in the Philippines and Wastewater Treatment Plant at Sallaghari, Kodku and Dhobighat in Nepal.

Information, Communications and Building Technologies (ICBT)

As of 30 June 2023, the Information, Communications and Building Technologies ("ICBT") segment had HK$940.8 million of contracts-in-hand (30 June 2022: HK$1,059.2 million). Delivering on the order book throughout 2023, revenue for our ICBT segment in the first half of 2023 increased by 2.5% year-on-year to HK$310.9 million (six months ended 30 June 2022: HK$303.4 million). The ICBT segment reported a decrease in gross profit of HK$46 million during the reporting period.

The Group is committed to driving Hong Kong's transformation into a "Smart City" and "Smart Economy". It provides green and intelligent building solutions that integrate a wide range of information and communications technologies, including AI-enabled Digital Twin, energy and management technologies, ESG dashboards, Indoor Environment Quality ("IEQ") Management, robotic solutions, and Smart Lampposts.

The Group's cutting-edge technologies continue to make waves in Hong Kong's prestigious business districts. Our integrated Building Management System ("BMS"), Internet of Things ("IoT"), Extra Low Voltage ("ELV") and Information and Communications Technology ("ICT") systems have been adopted in a world-class smart office and commercial building that is currently under construction in Causeway Bay. This is a significant achievement for our Group and showcases our commitment to providing innovative solutions to our customers.

We have recently secured our second IoT-based smart hostel solution at one of the universities in Hong Kong, solidifying our position as a leading provider of smart solutions in the education sector. In addition, our Video Analytics technology has been selected by one of the biggest shopping malls in Tai Wai, highlighting our expertise in providing state-of-the-art security solutions.

Our BMS has been chosen by one of the biggest office and retail developments in the West Kowloon Station area, demonstrating our ability to deliver high-quality solutions that meet the diverse needs of our customers in the commercial sector.

In view of the growing market demand for such specialised solutions, the Group will continue to adopt digital technologies to enhance its maintenance service capabilities, while its in-house research and development ("R&D") team will continue to collaborate with renowned hardware and software partners, universities and research institutes to gain access to best industry practices and further enhance its innovation capabilities.

Management Discussion and Analysis

Lifts & Escalators

As of 30 June 2023, the contracts-in-hand of Anlev Elevator Group ("Anlev"), the Group's global brand of lifts, escalators and moving walkways, amounted to HK$586.0 million (30 June 2022: HK$515.6 million). Maintenance contracts for both commercial and government buildings were major profit contributors during the reporting period.

Delivering on the order book throughout 2023, revenue for our Lifts & Escalators segment in the first half of 2023 was HK$159.6 million (six months ended 30 June 2022: HK$183.2 million).

The Group's renowned Anlev brand serves millions of users in Asia, the Americas and Europe through its lifts, escalators and moving walkways, while its Hong Kong arm is a leading lifts and escalators contractor. Renowned for its safety and service quality, Anlev has received the "Safety Star" and five "Service Quality Stars" for 42 consecutive quarters in the Lift and Escalator Contractors' Performance Ratings launched by the Electrical and Mechanical Services Department of the Hong Kong Government as a certification of the highest level of safety and quality.

In 2023, strategic orders secured by Anlev ranged from mixed-use residential building in Canada, public transportation in Mexico, private housing in Singapore, prestigious government offices in Hong Kong, to orders in Mainland China.

During the reporting period, the Group's wholly-owned subsidiary Anlev (UK) Limited has finalised the order for the iconic and prestigious residential project in Manchester, United Kingdom.

Under its global expansion plan, Anlev will seek new distributors in the United States, Europe, the Middle East and Southeast Asia.

Innovation, Resources Management and Other Operations Initiatives

The Group focuses on fostering a culture of innovation by providing its customers with solutions for a wide range of applications, including artificial intelligence ("AI"), robotics solutions, energy optimisation, energy storage, renewable energy, digitalisation and environmental protection solutions that ultimately benefit society. This commitment also helps maintain our market-leading position in the industry and contributes to our long-term business growth.

We believe that innovation and sustainable development are the key drivers of our business. As proof of this, we have recently established a new business unit: Smart Data Automation ("SDA").

The Group is an industry pioneer in the adoption of advanced construction technologies, with more than 50% of its building services projects adopting technologies such as Building Information Modelling ("BIM"), Design for Manufacture and Assembly ("DfMA") and Multi-Trade Integrated Mechanical, Electrical and Plumbing ("MiMEP"). The adoption of these technologies has improved the level and efficiency of project management and contributed to the construction industry's transition to the digital age.

In line with Hong Kong's BIM roadmap, we have enhanced the Group's overall BIM capability through the creation and maintenance of appropriate BIM environments, methodologies and facilities, as well as the provision of training, coaching and mentoring for our staff.

In addition to providing sustainable and clean energy solutions, we are committed to nurturing our talent through the provision of quality education and training opportunities. In 2023, more than 400 employees took part in a total of over 5,000 hours of internal training on BIM theory, software and management, and mandatory external BIM training for engineering and frontline staff. We aim to have 60% of our engineering and frontline staff to be BIM-certified by mid-2024. As at the end of June 2023, 36% of our engineering staff had received both basic and advanced MEP BIM modelling certification, and 77% of our frontline staff were certified in BIM model review and analysis. In terms of BIM certification, our aim is for staff to achieve the industry-recognised CIC-Certified BIM Manager/CIC-Certified BIM Coordinator (BIM CCBM/CCBC) qualification.

By capitalising on our competitive strengths in data analytics and programming, we have developed algorithms for automated calculations for each of the Mechanical, Electrical and Plumbing ("MEP") disciplines, enhancing accuracy and speed by negating the need for manual calculations.

We will continue in the spirit of BIM learning, continue to provide data-driven solutions and helping to shape Hong Kong into a smarter, more sustainable city.

We are constantly seeking innovative solutions for our projects and actively participate in industry events. Our in-house developed ATAL Multi-Stages Flocculation Sedimentation III ("AMSFS III"), which has achieved the "Certificate of Merit" in the "Hong Kong Green Innovations Awards" organised by the Environmental Campaign Committee. The system, co-designed and built by the Group's teams in Hong Kong and Mainland China, is an all-in-one wastewater treatment system that leverages the latest construction technologies, such as BIM, Modular Integrated Construction ("MiC") and MiMEP. The award is a testament to our contributions to green innovation, resulting in tangible benefits to the environment and the community. It also recognises our cross-border team collaborations and in-house technological development capabilities. We take pride in our commitment to innovation and will continue to push the boundaries of what is possible in our industry.

Looking ahead, we will continue to give full play to our strengths in human resources and innovative technologies to support the effective implementation of our "New Technology, New Market, New Business Model" business strategy.

COVID-19 Impact

After three years, the lifting of all COVID-19 restrictions in the first quarter of 2023 marked a new chapter for our Group. With the full reopening of the border between Hong Kong and the Mainland China, we expect to see a positive impact on the city's economic recovery.

The severe impact of COVID-19 on the US economy and New York City has resulted in a decrease in the commercial occupancy rate in New York City by 50%. Nevertheless, TEI's experience in navigating these challenging times has allowed them to slowly turn a corner, which is worth noting. As the commercial occupancy rate gradually resumes normal, we anticipate better business outlook for TEI where TEI will seize new opportunities and thrive in the improved business environment.

Management Discussion and Analysis

FINANCIAL REVIEW

In the first half of 2023, the Group's revenue was HK$2,841.1 million, which was HK$180.7 million or 6.0% less than the same period last year, mainly attributable to Building Services segment. With higher margins of 16% for the six months ended 30 June 2023 (six months ended 30 June 2022: 15.1%), the gross profit of the Group was HK$453.8 million, which is similar to the gross profit of HK$457.6 million in the corresponding period of 2022.

The Group reported a consolidated profit attributable to owners of the Company of HK$237.5 million for the six months ended 30 June 2023 (HK$59.2 million in the six months ended 30 June 2022). Excluding the dilution gain of HK$124.1 million upon completion of a private placement of an associate of the Company in Mainland China (included in 'Other gains and losses' on the condensed consolidated statement of profit or loss and other comprehensive income), the Group's consolidated profit attributable to owners of the Company for the six months ended 30 June 2023 was HK$113.4 million, which is HK$54.2 million more than the consolidated profit attributable to owners of the Company for the corresponding period in 2022. However, as indicated in the Company's announcement dated 4 August 2023, without taking into account the provision for potential litigation liabilities of HK$60.0 million (the matters of which have been dealt with and resolved in November 2022) made during the six months ended 30 June 2022, the Group's consolidated profit attributable to owners of the Company for the six months ended 30 June 2023 would represent a decrease of HK$5.8 million or 4.9% as compared to the same period in 2022, which is mainly due to the provision for losses made in certain projects in the ICBT segment.

The Group maintained strong cash position and adequate committed banking facilities to finance our growth and development. The Group's cash balance amounted to HK$835.1 million at 30 June 2023 (31 December 2022: HK$976.0 million). The Group's bank borrowing balance as of 30 June 2023, being the mortgage loan to finance the purchase of ATAL Tower (as the Group's office tower after revitalization and renovation) in December 2021, was HK$270.6 million (31 December 2022: HK$277.9 million), out of which HK$255.9 million was a non-current liability.

Non-Generally Accepted Accounting Principles ("GAAP") Financial Measures

To supplement the Group's consolidated results prepared in accordance with HKFRS, a certain non-GAAP financial measure, namely profit attributable to owners of the Company before the dilution gain upon private placement of an associate in Mainland China and the provision for potential litigation liabilities is presented. The Company's management believes that the non-GAAP financial measure provides investors with a more meaningful view of the Group's financial results. However, there are limitations to the use of this non-GAAP financial measure as an analytical tool. Non-GAAP financial measure should be viewed as supplement to, and not a substitute for, analysis of the Company's financial performance prepared in accordance with HKFRS.

Revenue

During the six months ended 30 June 2023, the Group's reported revenue was HK$2,841.1 million, representing a decrease of HK$180.7 million or 6.0% compared to the six months ended 30 June 2022. The decrease in revenue in Building Services segment was HK$286.3 million, which is partly offset by the increase in revenue in Environmental Engineering segment of HK$123.0 million.

Gross Profit

The gross profit of the Group for the six months ended 30 June 2023 was HK$453.8 million (six months ended 30 June 2022: HK$457.6 million). Compared year-on-year, the lower gross profit of HK$3.8 million was mainly due to decrease in gross profit of HK$46 million in ICBT segment, the effect of which was offset by higher gross profit of HK$56.7 million in the Environmental Engineering segment.

Gross profit margin increased by 0.9% from 15.1% in the six months ended 30 June 2022 to 16.0% in the six months ended 30 June 2023.

Other Income

The Group recorded other income of HK$11.9 million (six months ended 30 June 2022: HK$13.7 million) during the six months ended 30 June 2023 which mainly included rental income, management fee income, bank interest income and government subsidies. The decrease was mainly attributable to the fact that there was no more rental income from ATAL Tower during the six months ended 30 June 2023 as the leases expired in December 2022. Excluding the rental income of ATAL Tower (HK$3.9 million in the six months ended 30 June 2022), other income increased by HK$2.1 million during the six months ended 30 June 2023, mainly consisting of bank interest income resulted from higher bank interest rate.

Other Gains and Losses

The Group recorded a net gain of HK$144.5 million in the six months ended 30 June 2023 (six months ended 30 June 2022: gain of HK$25.0 million), the increase was mainly attributable to the dilution gain of HK$124.1 million upon the completion of a private placement by an associate of the Company in Mainland China in the six months ended 30 June 2023, net of impairment of interest in an associate of HK$19.0 million (six months ended 30 June 2022: HK$21.0 million) as it has revised down its forecast for the coming few years.

Administrative Expenses

The Group's administrative expenses decreased by HK$45.1 million or 12.4% to HK$318.3 million in the six months ended 30 June 2023 (six months ended 30 June 2022: HK$363.4 million). Excluding the share-based payment expenses of HK$9.3 million recognised in the six months ended 30 June 2023 (six months ended 30 June 2022: HK$46.7 million), the administrative expenses in the six months ended 30 June 2023 were close to the same period last year.

Share of Results of Associates

The Group's share of results of associates for the six months ended 30 June 2023 decreased by HK$23.0 million when compared to the six months ended 30 June 2022. The decrease is mainly attributable to the share of loss of HK$9.4 million in an associate of the Group in the US for the six months ended 30 June 2023 (share of profit HK$9.9 million in the six months ended 30 June 2022). The associate in US reported a loss in the six months ended 30 June 2023 mainly due to lower gross profit margins.

Management Discussion and Analysis

Liquidity and Financial Resources

The Group's finance and treasury functions have been centrally managed and controlled at the headquarters in Hong Kong. The Group maintained a healthy liquidity position throughout the reporting period. As at 30 June 2023, the Group's total cash and bank balances (excluding pledged bank deposits) amounted to HK$835.1 million (31 December 2022: HK$976.0 million), of which 72.8%, 24.9%, 1.7% and 0.6% (31 December 2022: 74.6%, 24.1%, 0.9% and 0.4%) were denominated in Hong Kong dollars or Macau Pataca, RMB, USD and other currencies respectively. As of 30 June 2023, the Group's bank borrowing was HK$270.6 million (31 December 2022: HK$277.9 million), representing the mortgage loan outstanding for ATAL Tower. The repayment is scheduled to be completed by the end of the year 2041. It is denominated in Hong Kong dollars and bears interest at floating rates. Additionally, as of 30 June 2023, the Group had banking facilities in respect of bond, bank overdraft and loans, and other trade finance which approximately amounted to HK$2,573.9 million (31 December 2022: HK$2,589.4 million), of which approximately HK$846.9 million had been utilised (31 December 2022: HK$898.6 million).

Foreign Exchange Risk

The Group operates primarily in Hong Kong, Macau and Mainland China and is not exposed to significant exchange risk. The Group will continue to monitor its exposure to the currency risks closely by reviewing the fluctuation of the foreign exchange rate. The Group has entered into foreign currency forward contracts for the planned foreign currency transactions in the ordinary course of business. There are no foreign currency net investments hedged by currency borrowings or other hedging instruments.

Use of proceeds from listing of shares of the Company

The total net proceeds raised by the Company pursuant to the listing of the shares in the Company's global offering in 2019 amounted to approximately HK$335.7 million (the "Net Proceeds"). As at 30 June 2023, the Group had utilised HK$255.4 million of the Net Proceeds and committed to utilise HK$4.7 million of the Net Proceeds, and the expected timeline for utilising all the unutilised Net Proceeds was on or before 31 December 2023.

As stated in the Company's announcement dated 27 November 2020, the Board of Directors of the Company (the "Board") resolved to change the use of the unutilised Net Proceeds as of 31 October 2020.

The following table sets forth the original allocation, the revised allocation as of 31 October 2020, and the actual use as of 30 June 2023:

	Original allocation of Net Proceeds *HK$'M*	Utilised amount of Net Proceeds up to 31 October 2020 *HK$'M*	Revised allocation of the unutilised Net Proceeds as at 31 October 2020 *HK$'M*	Utilised amount of Net Proceeds from 1 November 2020 to 31 December 2022 *HK$'M*	Unutilised amount of Net Proceeds as at 31 December 2022 *HK$'M*	Utilised amount of Net Proceeds from 1 January 2023 to 30 June 2023 *HK$'M*	Unutilised amount of Net Proceeds as at 30 June 2023 *HK$'M*
Supporting the expansion and development of building services segment	67.1	34.6	42.4	42.4	–	–	–
Enhancing engineering capabilities in environmental engineering segment							
– acquisition of, investment in, cooperating or forming joint ventures	59.3	17.1	5.6	5.6	–	–	–
– support the expansion and development of environmental engineering segment, including project working capital needs and additional investment in development of advanced environmental process technologies	41.4	0.5	40.9	40.9	–	–	–
Enhancing engineering capabilities of ICBT segment							
– setting up dedicated research and development teams	19.3	6.0	13.3	13.3	–	–	–
– acquisition of, or investment in, companies which possess innovative technology	47.8	–	–	–	–	–	–
Expansion and development of lifts and escalators segment							
– expanding existing manufacturing facilities and construction of a new production plant	54.1	–	–	–	–	–	–
– setting up export sales office and sales and service centres in Mainland China	13.0	–	–	–	–	–	–
– expanding existing manufacturing facilities	–	–	67.1	46.3	20.8	8.5	12.3
Acquisition of, or investment in, companies	–	–	68.0	–	68.0	–	68.0
General working capital	33.7	31.8	8.4	8.4	–	–	–
Total	335.7	90.0	245.7	156.9	88.8	8.5	80.3

Management Discussion and Analysis

Future Plans For Material Investment or Capital Assets

While the Group will continue to target suitable new business ventures and investment opportunities, there are no concrete future plans for material investments or capital assets as at the date of this report.

Material Acquisition or Disposal of Subsidiaries, Associates and Joint Ventures

The Group has no material acquisition or disposal of any subsidiaries, associates, and joint ventures in the course of the reporting period.

Gearing Ratio and Indebtedness

As of 30 June 2023, the gearing ratio (being gross bank borrowings divided by total equity) decreased to 12.2% (31 December 2022: 13.5%).

Charges on Group Assets

The Group had pledged assets as security for general short-term banking facilities and a mortgage loan which amounted to HK$716.5 million as at 30 June 2023 (31 December 2022: HK$699.8 million). The pledged assets mainly represented the ATAL Tower for the mortgage loan as well as loan facilities for revitalisation and renovation of ATAL Tower.

Capital Commitment

As of 30 June 2023, the capital commitment of the Group contracted but not provided for in the condensed consolidated financial statements amounted to HK$4.7 million for the expansion of existing lifts and escalators manufacturing facilities in Nanjing (31 December 2022: HK$10.6 million) and HK$5.0 million for revitalisation of existing properties (31 December 2022: HK$6.8 million).

Contingent Liabilities

As at 30 June 2023, the Group had outstanding performance bonds of approximately HK$541.4 million (31 December 2022: HK$584.9 million), which were given by banks in favour of the Group's customers as security for the due performance and observance of the Group's contractual obligations to customers. If the Group fails to provide satisfactory performance to such customers, the customers may demand the banks to pay them the sum or sum stipulated in the performance bond, and the Group will become liable to compensate such banks accordingly. The performance bonds will be released upon completion of the contracting works concerned.

Events after Reporting Period

No major subsequent events have occurred since the end of the reporting period and up to the date of this report.

Human Resources

As at 30 June 2023, the Group had 2,701 employees (30 June 2022: 2,516) in Hong Kong, Macau, Mainland China, and the United Kingdom.

The Group will continue to invest in training for its employees at all levels to enhance the competence, knowledge, skills, as well as the integrity, customer centricity and leadership of its workforce. A total of 238 internal training courses with over 23,000 training hours were arranged in the first half of 2023 for the Group's employees. The Group has developed and maintained the Hong Kong Institution of Engineers ("HKIE") Graduate Training Scheme and Vocational Training Council ("VTC") Apprenticeship Programme since the 1980s, and nurtured over 1,000 young engineers and technicians to successfully complete their training. In the first half of 2023, more than 110 young employees received these trainings under remarkable programmes. Applications for the new disciplines, including Control, Automation and Instrumentation as well as Electronics under the HKIE Graduate Training Scheme progressed well. To cope with the changing business environment and needs, our signature Staff Development Programmes have been reviewed and revamped with an overwhelming response from the relevant staff.

The Group understands that its people are the core of the organisation and therefore endeavours to promote the continuous development of its employees while creating a positive and productive working environment, providing opportunities for all staff to realise their potential. As an equal opportunity employer, the Group places great emphasis on diversity and endeavours to promote a culture of teamwork and well-being amongst our employees. We recognise that attracting and retaining talent is critical to the long-term success of the Group and therefore offer competitive remuneration and benefits, as well as training and career development opportunities.

In addition to attracting talent, our remuneration policy aims to incentivise employees to deliver strong and sustainable performance. The remuneration of directors and senior executives is based on the recommendations of the Board's Remuneration Committee, approved by the Board and reviewed regularly. Remuneration is linked to performance, enabling us to share our success with our employees and achieve our business objectives. To this end, the Group has established a comprehensive goal-setting and performance appraisal system.

The Group maintains high ethical standards in serving its customers and working with its partners. Employees must comply with the Group's Code of Conduct, which is regularly reviewed and updated. Regular training programmes are organised to ensure that staff are fully aware of and compliant with business-related statutory requirements, including the Competition Ordinance, Construction Workers Registration Ordinance, Equal Opportunities Ordinance, Personal Data Privacy Ordinance, Prevention of Bribery Ordinance, etc.

Management Discussion and Analysis

OUTLOOK

The Group's positive business outlook for the year ahead is driven by high market demand and growth opportunities across our different market segments, as reflected in our strong tender activity throughout 2023. Our continued success in securing new business opportunities and winning contract tenders provides a good foundation for us to remain competitive in the industry and expand our revenue, customer base and market reach.

With healthy liquidity, low debt levels and strong recurring operating cash flows, the Group has the financial flexibility to take on new projects and invest in the long-term future of the business.

With an increase in construction works in both the public and private sectors, the total annual construction output in Hong Kong is projected to reach approximately HK$300 billion annually in the next ten years. Based on information published by the Hong Kong Government, it plans to increase its annual capital works expenditure to over HK$100 billion in the coming years, with a focus on investing in housing and infrastructure. To expedite housing supply and strengthen Hong Kong's regional position in MiC, the government is establishing a steering committee to coordinate high-productivity construction methods and streamline approval processes. This initiative is in line with the government's aim to promote innovative and environmentally friendly construction approaches. The Group sees significant opportunities in these initiatives, particularly in advanced food waste treatment technology.

The Hong Kong Government stated that it is committed to sustainable urban development, with significant investments in housing and infrastructure such as the Northern Metropolis and Kau Yi Chau Artificial Islands. These initiatives promote innovative construction approaches and are in line with the government's environmental objectives. The government announced that it currently plans to build 30,000 Light Public Housing units, increase public housing production by 50%, and shorten the Composite Waiting Time for Subsidised Rental Housing. These initiatives aim to make affordable housing more accessible and promote sustainable urban development in Hong Kong.

To tackle the ongoing manpower shortages in the industry, the government has implemented several measures, including schemes for sector-specific labour importation and improvements to the Supplementary Labour Scheme's coverage and operation. These initiatives aim to address the labour shortage in the industry and ensure that businesses have access to the necessary workforce to meet their needs. By taking a proactive approach to addressing manpower challenges, the government is working to support the growth and development of the industry and promote economic prosperity in Hong Kong.

The Hong Kong Government also announced that it is committed to implementing 100 new digital initiatives by 2025, with a focus on increasing the annual usage of open data. This has led to increasing adoption of cutting-edge technologies like Digital Twin, AI, robotic solutions, IoT, big data and data analytics across many industries, especially the data centre sector. Hong Kong is one of the most attractive locations for data centres in the Asia Pacific region, thanks to its strategic position as a regional hub, low risk of natural disasters, reliable electricity supply and proximity to Mainland China. As a leader in this sector, the Group is continuously adding new capabilities and expanding its marketing reach to serve new customers and strengthen its competitive edge for future growth.

The Hong Kong Government's initiatives in innovation and sustainability present exciting business opportunities for the Group. We leverage the proprietary technologies developed by our R&D team to bring significant benefits to our customers and the community, such as energy-efficient buildings, digital solutions for improved operational efficiency, enhanced healthcare and other service delivery. We strive to work in close partnership with our customers and the community, supported by our three strategic pillars of "New Technology", "New Market", and "New Business Model", and this allows us to consolidate our operation and maintenance ("O&M") capacity, set new standards of excellence, and ensure continuous improvements while applying new technologies across our business segments. These segments include buildings, infrastructures, lifts and escalators, smart car park systems, and Digital Twin technologies for water and wastewater plants. Our focus on innovation and sustainability positions us at the forefront of our industry, enabling us to create value for our customers and contribute to the improvement of our community.

In addition to its investment in new technologies such as Digital Twin, IoT, AI, and Big Data Analytics, the Group also invests in BIM, MiC, MiMEP and other construction technologies, as well as robotic solutions. These investments reduce costs, increase productivity and improve safety and quality, benefitting both our customers and the community. Our strategic focus is not just to compete in existing markets, but to create new market segments for higher growth and profitability. With a proven track record in deploying intelligent automation systems and a customer-centric approach, the Group has become the preferred provider for both established and emerging industries in the O&M services sector.

The Group's unwavering commitment to the fundamentals enables us to overcome challenges and emerge stronger. We adopt best business practices to mitigate risks proactively, such as enhancing technical and ethical training, managing human resources, resolving logistics issues, and mitigating material cost fluctuations. To prepare for future growth and development, we have reorganised our operating units, established new appointments and procedures, and strengthened governance to promote new technologies and market segments.

With our recent expansion in the US and European markets as a foundation, we are endeavouring to explore suitable synergistic business partnerships to further expand our reach and create new revenue streams. This move has enabled us to expand our presence in the UK market and provide more comprehensive services to our customers. As for the US, despite the slower-than-expected recovery of the New York lift and escalator market from the impact of COVID-19, TEI successfully shifted our business towards residential projects, which has yielded positive results. Going forward, we will continue to explore similar opportunities and collaborations that align with our strategic goals and values, enabling us to provide exceptional value to our customers and stay ahead of the competition.

We have a high level of contracts in-hand and a robust pipeline of business opportunities, both domestically and internationally across the Guangdong-Hong Kong-Macao Greater Bay Area, Oceania and Europe. We believe that these factors will lead to significant business growth for the Group, whilst also contributing to the communities in which we operate. To further drive growth, we have recently expanded our business operations through engaging in business development activities, such as exhibitions, in new potential markets. We remain steadfast in our commitment to meeting our customers' expectations by providing quality, timely and cost-effective services. In the coming years, we will continue to work closely with our customers to create shared value for all stakeholders. Our focus on sustainability and innovation will enable us to stay ahead of the curve and provide optimal solutions that benefit both our customers and the wider community.

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF ANALOGUE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Analogue Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 51, which comprise the condensed consolidated statement of financial position as of 30 June 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 August 2023

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2023

	Notes	Six months ended 30 June 2023 HK$'000 (Unaudited)	2022 HK$'000 (Unaudited)
Revenue	4	**2,841,055**	3,021,720
Cost of sales and services		**(2,387,255)**	(2,564,144)
Gross profit		**453,800**	457,576
Other income		**11,929**	13,722
Other gains and losses	5	**144,546**	24,987
Provision for potential litigation liabilities	17	**–**	(60,000)
Impairment losses under expected credit loss model, net of reversal	15	**(9,747)**	(2,349)
Selling and distribution expenses		**(1,647)**	(624)
Administrative expenses		**(318,304)**	(363,351)
Share of results of associates		**(7,797)**	15,177
Finance costs	6	**(5,318)**	(4,145)
Profit before tax		**267,462**	80,993
Income tax expense	7	**(29,942)**	(21,818)
Profit for the period	8	**237,520**	59,175
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of properties		**565**	580
Income tax relating to gain on revaluation of properties		**(93)**	(96)
		472	484
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising from translation of foreign operations		**(26,238)**	(26,083)
Reclassification of cumulative translation reserve upon disposal of interest in an associate		**1,405**	(500)
Reclassification of cumulative translation reserve upon dilution of interest in an associate		**1,504**	–
		(23,329)	(26,583)
Other comprehensive expense for the period, net of tax		**(22,857)**	(26,099)
Total comprehensive income for the period		**214,663**	33,076
		HK cents	HK cents
Earnings per share			
Basic	10	**17**	4
Diluted	10	**17**	4

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Non-current assets			
Investment properties	11	**4,720**	589,720
Property, plant and equipment	12	**738,302**	147,902
Right-of-use assets	12	**53,751**	87,713
Intangible assets		**–**	–
Interests in associates	13	**500,672**	440,651
Deposits		**12,741**	13,274
Deferred tax assets		**10,996**	13,154
		1,321,182	1,292,414
Current assets			
Inventories		**90,003**	69,474
Contract assets	14	**1,293,010**	1,244,364
Trade receivables	15	**1,002,344**	1,047,197
Other receivables, deposits and prepayments		**147,886**	145,309
Amount due from an associate	13	**–**	–
Amounts due from partners of joint operations		**14,248**	7,142
Tax recoverable		**2,742**	4,468
Pledged bank deposits		**25,761**	25,818
Bank balances and cash		**835,139**	976,028
		3,411,133	3,519,800
Current liabilities			
Trade and retention payables	16	**552,370**	724,380
Other payables and accrued expenses	17	**1,469,301**	1,494,963
Contract liabilities		**102,401**	123,978
Amounts due to partners of joint operations		**294**	5,108
Bank borrowing – due within one year	18	**14,625**	14,625
Derivative financial instruments		**1,621**	2,776
Lease liabilities		**35,926**	31,717
Tax payable		**45,931**	15,911
		2,222,469	2,413,458
Net current assets		**1,188,664**	1,106,342
Total assets less current liabilities		**2,509,846**	2,398,756

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Capital and reserves			
Share capital	19	**14,000**	14,000
Reserves		**2,210,025**	2,048,906
Total equity		**2,224,025**	2,062,906
Non-current liabilities			
Bank borrowing – due after one year	18	**255,938**	263,250
Lease liabilities		**14,535**	52,762
Deferred tax liabilities		**13,588**	17,944
Deferred income		**1,760**	1,894
		285,821	335,850
		2,509,846	2,398,756

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Share capital HK$'000	Share premium HK$'000	Treasury share reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000	Property revaluation reserve HK$'000	Translation reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000
			(Note b)					(Note a)		
At 1 January 2022 (audited)	14,000	358,704	(26,210)	–	5	33,922	26,633	19,163	1,703,482	2,129,699
Profit for the period	–	–	–	–	–	–	–	–	59,175	59,175
Other comprehensive income (expense) for the period	–	–	–	–	–	484	(26,583)	–	–	(26,099)
Total comprehensive income (expense) for the period	–	–	–	–	–	484	(26,583)	–	59,175	33,076
Dividends recognised as distribution (Note 9)	–	–	–	–	–	–	–	–	(100,449)	(100,449)
Recognition of equity-settled share-based payment expense	–	–	–	46,734	–	–	–	–	–	46,734
Shares vested under the share award schemes	–	–	37,440	(35,102)	–	–	–	–	(2,338)	–
Purchase of shares under share award schemes (Note 19)	–	–	(19,586)	–	–	–	–	–	–	(19,586)
At 30 June 2022 (unaudited)	14,000	358,704	(8,356)	11,632	5	34,406	50	19,163	1,659,870	2,089,474
At 1 January 2023 (audited)	**14,000**	**358,704**	**(8,356)**	**20,220**	**5**	**32,306**	**(27,974)**	**20,024**	**1,653,977**	**2,062,906**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**237,520**	**237,520**
Other comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**–**	**472**	**(23,329)**	**–**	**–**	**(22,857)**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**–**	**472**	**(23,329)**	**–**	**237,520**	**214,663**
Dividends recognised as distribution (Note 9)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(62,795)**	**(62,795)**
Recognition of equity-settled share-based payment expense	**–**	**–**	**–**	**9,251**	**–**	**–**	**–**	**–**	**–**	**9,251**
Cancellation of share awards	**–**	**–**	**–**	**(16,876)**	**–**	**–**	**–**	**–**	**16,876**	**–**
At 30 June 2023 (unaudited)	**14,000**	**358,704**	**(8,356)**	**12,595**	**5**	**32,778**	**(51,303)**	**20,024**	**1,845,578**	**2,224,025**

Notes:

(a) Other reserves represent legal reserves of subsidiaries in Macau Special Administrative Region ("Macau") and statutory reserves of subsidiaries in the People's Republic of China ("PRC").

As stipulated by the relevant laws and regulations for enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of at least 10% of profit after taxation as reflected in the statutory financial statements of the relevant PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the relevant PRC subsidiaries' registered capital. The statutory surplus reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

In accordance with provision of the Macau Commercial Code, the subsidiaries incorporated in Macau are required to transfer a minimum of 25% of the profit after taxation as reflected in the statutory financial statements of the relevant subsidiaries each year to the legal reserve until the balance has reached 50% of the respective subsidiaries' registered capital. The legal reserve is not distributable to shareholders of the subsidiaries.

(b) During the six months ended 30 June 2022, the Company purchased its own ordinary shares of an aggregate of 10,800,000 shares in the market through the trustees of the Company's share award schemes. Details of the treasury shares and the share award schemes are set out in Notes 19 and 20, respectively.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Operating cash flows before movements in working capital	**181,644**	179,614
Increase in inventories	**(24,956)**	(1,194)
Increase in contract assets	**(51,989)**	(144,155)
Decrease in trade receivables	**33,567**	275,486
Decrease (increase) in other receivables, deposits and prepayments	**2,309**	(71,192)
Decrease in trade and retention payables	**(170,296)**	(48,682)
(Decrease) increase in other payables and accrued expenses	**(24,516)**	184,282
(Decrease) increase in contract liabilities	**(21,529)**	37,194
Decrease in deferred income	**(134)**	(134)
Cash (used in) generated from operations	**(75,900)**	411,219
Tax paid	**(408)**	(12,164)
Net cash (used in) generated from operating activities	**(76,308)**	399,055
Bank interest income received	**7,227**	2,964
Proceeds on disposal of property, plant and equipment	**156**	32
Government grant received for property, plant and equipment	**–**	873
Payments for rental deposits	**(1,889)**	(300)
Additions of property, plant and equipment	**(19,541)**	(6,054)
Deposits paid for acquisition of property, plant and equipment	**(3,611)**	(3,299)
Placement of pledged bank deposits	**(881)**	(6,344)
Proceeds on disposal of interest in an associate	**58,899**	42,243
Advance to an associate	**(2,000)**	–
Advance to partners of joint operations	**(7,106)**	(4,294)
Dividend received from an associate	**7,144**	13,654
Net cash generated from investing activities	**38,398**	39,475

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Finance costs paid	**(5,010)**	(4,145)
Purchase of shares under share award schemes	**–**	(19,586)
Repayment of lease liabilities	**(17,113)**	(16,267)
New bank borrowings raised	**30,000**	80,000
Repayment of bank borrowings	**(37,312)**	(87,312)
Dividends paid to owners of the Company	**(62,795)**	(100,449)
Repayments to partners of joint operations	**(4,814)**	(10,706)
Net cash used in financing activities	**(97,044)**	(158,465)
Net (decrease) increase in cash and cash equivalents	**(134,954)**	280,065
Cash and cash equivalents at the beginning of the period	**976,028**	801,738
Effect of foreign exchange rate changes	**(5,935)**	(8,099)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**835,139**	1,073,704

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

The condensed consolidated financial statements of Analogue Holdings Limited (the "Company") and its subsidiaries (together, the "Group") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than additional accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and application of certain accounting policies which became relevant to the Group in the current interim period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2022.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Except as described below, the application of the new and amendments to HKFRSs in the current interim period 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 condensed consolidated financial statements.

Impacts on application of HKFRS 17 (including the October 2020 and February 2022 Amendments) *Insurance Contracts* ("HKFRS 17")

HKFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4 *Insurance Contracts*.

HKFRS 17 defines an insurance contract as a contract under which the Group accept significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Certain contracts entered into by the Group, e.g. performance bonds (Note 23), meet the definition of insurance contracts under HKFRS 17. However, these contracts are specifically scoped out from HKFRS 17 and the Group continues to account for these contracts under relevant accounting standards. Therefore, the application of HKFRS 17 in the current period had no material impact on the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

The Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies* which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's consolidated financial statements for the year ending 31 December 2023.

HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements and it may affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending 31 December 2023.

Impacts on application of Amendments to HKAS 12 *Income Taxes* ("HKAS 12") *International Tax Reform-Pillar Two Model Rules*

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group has applied the temporary exception immediately upon issue of these amendments and retrospectively, i.e. applying the exception from the date Pillar Two legislation is enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements for the year ending 31 December 2023.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Investment properties

If a property becomes an owner-occupied property because its use has been changed as evidenced by commencement of development with intention of owner-occupation, the fair value of the property at the date of change in use is considered as the deemed cost for subsequent accounting.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remains outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

Change in accounting estimate on the useful lives of leasehold improvements and relevant leases remeasurement

During the six months ended 30 June 2023, the Group changed the estimated useful lives of certain of its leasehold improvements associated with leased offices upon management's decision to (i) commence the revitalisation work of an industrial building located in Kwai Chung ("ATAL Tower"), which was an investment property of the Group, and (ii) relocate all of the major offices to ATAL Tower, as the headquarter of the Group, upon completion of revitalisation work in 2024. ATAL Tower previously classified under investment property has been transferred into assets under construction under property, plant and equipment accordingly.

Based on such relocation plan, the directors of the Company determined that changes to the estimated useful lives of the leasehold improvements associated with leased offices were appropriate. As a result, during the six months ended 30 June 2023, the Company shortened the estimated useful lives of the leasehold improvements in alignment of the revised enforceable lease period of leased offices to 10 and 21 months to better reflect the estimated periods of which these assets are expected to be remained in service.

The change in estimated useful lives was accounted for as a change in accounting estimate effective on 1 April 2023, which is the date of commencement of the revitalisation work with the expectations of useful lives formed based on the relocation plan. The impact of this change for the six months ended 30 June 2023, was an increase in depreciation expense of approximately HK$1,838,000 (unaudited).

As a result of the relocation plan in 2024, the Group has also remeasured lease period of its leased offices. For the six months ended 30 June 2023, right-of-use assets of approximately HK$25,348,000 (unaudited) and lease liabilities of approximately HK$28,714,000 (unaudited) were reversed, gain on the lease remeasurement of approximately HK$3,366,000 (unaudited) was recognised.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

4. REVENUE AND SEGMENT INFORMATION

The Group recognises revenue from three major sources, namely, contracting work, maintenance work and sales of goods.

(i) Disaggregation of revenue from contracts with customers

The following is an analysis of the Group's revenue from its major products and services:

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Timing of revenue recognition and category of revenue		
Recognised over time and long-term contracts		
Contracting work	**2,219,660**	2,503,010
Maintenance work	**565,122**	460,008
	2,784,782	2,963,018
Recognised at a point in time and short-term contracts		
Sales of goods	**56,273**	58,702
	2,841,055	3,021,720
Geographical information		
Hong Kong	**2,459,875**	2,790,741
Mainland China	**152,024**	69,006
Macau	**221,971**	150,002
United Kingdom	**5,303**	162
United States of America ("USA")	**18**	2,350
Others	**1,864**	9,459
	2,841,055	3,021,720

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(ii) Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of the respective reporting period are as follows:

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Contracting work	**9,529,194**	9,234,531
Maintenance work	**2,603,909**	2,268,495
Sales of goods	**142,882**	153,314
	12,275,985	11,656,340

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM") for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments are as follows:

Building services:	Provision of electrical and mechanical engineering building services, including the design, installation, testing and commissioning and maintenance of heating, ventilation and air-conditioning system, fire service system, plumbing and drainage system and electrical and extra low voltage system
Environmental engineering:	Provision of total solutions for the design, construction, operation and maintenance of environmental engineering systems for treatment of sewage, water, solid waste, sludge and gas
Information, communications and building technologies ("ICBT"):	Provision for design, installation and servicing of a wide range of intelligent systems, information and communications (ICT) systems and building technology systems
Lifts and escalators:	Provision of i) total solution for design, supply and installation of a wide range of lifts and escalators offered under the trade name of "Anlev Elex"; and ii) repair and maintenance services for lifts and escalators

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Reconciliation of segment revenue

For the six months ended 30 June 2023 (Unaudited)

	Building services HK$'000	**Environmental engineering HK$'000**	**ICBT HK$'000**	**Lifts and escalators HK$'000**	**Total HK$'000**
Revenue					
– Contracting work	**1,561,499**	**365,565**	**227,060**	**65,536**	**2,219,660**
– Maintenance work	**184,358**	**232,891**	**58,028**	**89,845**	**565,122**
– Sales of goods	**2,111**	**24,068**	**25,830**	**4,264**	**56,273**
Total revenue	**1,747,968**	**622,524**	**310,918**	**159,645**	**2,841,055**

For the six months ended 30 June 2022 (Unaudited)

	Building services HK$'000	Environmental engineering HK$'000	ICBT HK$'000	Lifts and escalators HK$'000	Total HK$'000
Revenue					
– Contracting work	1,910,327	281,545	221,115	90,023	2,503,010
– Maintenance work	122,517	190,654	64,539	82,298	460,008
– Sales of goods	2,788	27,317	17,725	10,872	58,702
Total revenue	2,035,632	499,516	303,379	183,193	3,021,720

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the six months ended 30 June 2023 (Unaudited)

	Building services HK$'000	Environmental engineering HK$'000	ICBT HK$'000	Lifts and escalators HK$'000	Inter segment elimination/ unallocated HK$'000	Total HK$'000
Revenue						
– external	1,747,968	622,524	310,918	159,645	–	2,841,055
– inter-segment	2,930	–	26,554	1,013	(30,497)	–
Total revenue	1,750,898	622,524	337,472	160,658	(30,497)	2,841,055
Segment profit (loss)	82,326	45,675	(17,850)	12,427	–	122,578
Share of result of an associate						3,580
Gain on dilution in interest in an associate						124,125
Gain on lease remeasurement						3,366
Impairment loss on interest in an associate						(19,000)
Bank interest income						7,227
Finance costs						(5,318)
Unallocated income/gains						39,372
Unallocated expenses						(8,468)
Profit before tax						267,462
Income tax expense						(29,942)
Profit for the period						237,520
Other segment information						
Depreciation of property, plant and equipment	745	891	389	2,736	7,281	12,042
Depreciation of right-of-use assets	3,439	805	2,419	629	12,319	19,611
Impairment losses (reversal of impairment losses) under expected credit loss model, net	3,165	8,128	(633)	(887)	(26)	9,747
Loss (gain) on disposal of property, plant and equipment	495	–	–	(2)	–	493

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

For the six months ended 30 June 2022 (Unaudited)

	Building services HK$'000	Environmental engineering HK$'000	ICBT HK$'000	Lifts and escalators HK$'000	Inter segment elimination/ unallocated HK$'000	Total HK$'000
Revenue						
– external	2,035,632	499,516	303,379	183,193	–	3,021,720
– inter-segment	1,581	–	31,030	107	(32,718)	–
Total revenue	2,037,213	499,516	334,409	183,300	(32,718)	3,021,720
Segment profit	69,051	17,057	31,352	32,019	–	149,479
Share of result of an associate						5,244
Impairment loss on interest in an associate						(21,000)
Provision for potential litigation liabilities						(60,000)
Bank interest income						2,964
Finance costs						(4,145)
Unallocated income/gains						55,233
Unallocated expenses						(46,782)
Profit before tax						80,993
Income tax expense						(21,818)
Profit for the period						59,175
Other segment information						
Depreciation of property, plant and equipment	1,033	957	463	1,960	7,590	12,003
Depreciation of right-of-use assets	2,854	834	2,382	732	11,811	18,613
(Reversal of impairment losses) impairment losses under expected credit loss model, net	(1,964)	2,493	675	1,113	32	2,349
Loss (gain) on disposal of property, plant and equipment	19	(3)	(1)	–	12	27

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of central administration costs, certain other income, certain other gains and losses, share of result of an associate, gain on dilution in interest in an associate, gain on lease remeasurement, impairment loss on interest in an associate, provision for potential litigation liabilities and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment revenue are charged at prevailing market rates.

Segment assets and liabilities

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the CODM for review.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Gain from change in fair value of contingent consideration payables	**–**	19,069
Gain on disposal of interest in an associate (Note 13)	**38,725**	31,717
Impairment loss on interest in an associate (Note 13)	**(19,000)**	(21,000)
Gain on dilution in interest in an associate (Note 13)	**124,125**	431
Loss on disposal of property, plant and equipment	**(493)**	(27)
Net exchange losses	**(2,177)**	(5,203)
Gain on lease remeasurement	**3,366**	–
	144,546	24,987

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings	**2,251**	2,207
Interest expenses on lease liabilities	**1,712**	1,763
Ancillary costs in respect of banking facilities	**1,355**	175
	5,318	4,145

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong	**30,454**	21,510
Macau	**1,126**	–
PRC Enterprise Income Tax	**443**	5,262
	32,023	26,772
Under(over)provision in prior years		
Hong Kong	**–**	(120)
PRC Enterprise Income Tax	**46**	210
	46	90
	32,069	26,862
Deferred tax	**(2,127)**	(5,044)
	29,942	21,818

Under the two-tiered profits tax rates regime in Hong Kong, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

7. INCOME TAX EXPENSE (CONTINUED)

Under Macau Complementary Tax Law, companies are divided into Group A and Group B tax payers. Group A tax payers are assessed based on their actual taxable profits. Group B tax payers are assessed based on deemed profits ascertained by the Macau Finance Bureau. The Group has Group A and Group B tax payers and Macau Complementary Tax is calculated at a rate of 12% on the assessable profit above Macau Pataca ("MOP") 600,000 for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries of the Group is 25% for both periods. A subsidiary of the Company is qualified as advanced technology enterprise and has obtained approval from the relevant tax authority for the applicable tax rate reduced to 15% for a period of three years up to 2023.

The Company's subsidiaries and an associate of the Group that are tax residents in the PRC are subject to the PRC dividend withholding tax at 10% when and if undistributed earnings out of profits that arose on or after 1 January 2008 are declared to be paid as dividends to its immediate holding company which is a non-PRC tax resident. According to the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" and Guoshuifa [2008] No. 112, where the Hong Kong resident company directly owns at least 25% of the capital of the Mainland company, 5% dividend withholding tax rate is applicable. Whereas the Hong Kong resident company directly owns less than 25% of the capital of the Mainland company, 10% dividend withholding tax rate is applicable. During the six months ended 30 June 2023, 5% and 10% withholding tax rates were used for the Company's subsidiaries and the Group's associate, respectively (six months ended 30 June 2022: 5% and 10%, respectively). A dividend withholding tax of approximately HK$897,000 (unaudited) (six months ended 30 June 2022: HK$409,000 (unaudited)) was reversed to profit or loss for the six months ended 30 June 2023. During the six months ended 30 June 2023, withholding tax of approximately HK$714,000 (unaudited) (six months ended 30 June 2022: HK$1,365,000 (unaudited)) was paid by the Group. The above resulted in a net reversal of provision for dividend withholding tax of approximately HK$1,611,000 (unaudited) (six months ended 30 June 2022: a net reversal of provision of approximately HK$1,774,000 (unaudited)) credited to profit or loss for the six months ended 30 June 2023.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Staff costs (including directors' remuneration) (Note):		
– Directors' remuneration	**20,551**	27,758
– Salaries and other benefits	**603,247**	592,976
– Retirement benefit scheme contributions (excluding directors)	**27,913**	26,703
– Share-based payment expense (excluding directors)	**5,012**	34,630
	656,723	682,067
Cost of inventories recognised as expenses (included in cost of sales and services)	**129,517**	108,514
Depreciation of property, plant and equipment	**12,042**	12,003
Depreciation of right-of-use assets	**19,611**	18,613
Write-down (reversal) of inventories, net	**3,774**	(817)
(Gain) loss from change in fair value of derivative financial instruments	**(1,155)**	4,452
Rental income from investment properties	**(73)**	(4,011)
Less: direct operating expenses incurred for investment properties that generated rental income during the period	**69**	1,378
	(4)	(2,633)
Auditor's remuneration	**2,755**	2,624

Note: During the six months ended 30 June 2023, the Group recognised government grants of approximately HK$722,000 (unaudited) (six months ended 30 June 2022: HK$18,194,000 (unaudited)) in respect of COVID-19 related subsidies, of which Nil (unaudited) (six months ended 30 June 2022: HK$17,276,000 (unaudited)) relates to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region and was credited to cost of sales and services and administrative expenses.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

9. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the period:

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
2022 special dividend – HK4.5 cents (2022: 2021 second interim dividend – HK7.25 cents) per share	**62,795**	100,449

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK8.52 cents per share amounting to HK$118,891,000 in aggregate will be paid to owners of the Company whose names appear in the register of members of the Company as at the close of business on 14 September 2023.

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of calculating basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	**237,520**	59,175

Number of ordinary shares

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,395,438,000**	1,382,803,912
Effect of dilutive potential ordinary shares	**–**	210,580
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,395,438,000**	1,383,014,492

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

10. EARNINGS PER SHARE (CONTINUED)

During the six months ended 30 June 2023 and 2022, the weighted average numbers of ordinary shares for the calculation of basic and diluted earnings per share had been adjusted for the effect of shares held by the trustees pursuant to the share award schemes.

The computation of diluted earnings per share for the six months ended 30 June 2023 does not assume the effect of the Company's all (six months ended 30 June 2022: certain) awarded shares because the values of those awarded shares were higher than the average market price for the period. Save as the awarded shares mentioned above, there were no other dilutive potential ordinary shares in existence during the six months ended 30 June 2023 and 2022.

During the six months ended 30 June 2023 and 2022, the earnings for the purpose of calculating diluted earnings per share had not been adjusted for any changes in the Group's share of result of an associate that was attributable to the increase in the potential number of ordinary shares of the associate as a result of the conversion of convertible bonds issued by the associate as it is anti-dilutive.

11. INVESTMENT PROPERTIES

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
FAIR VALUE		
At beginning of the period/year	**589,720**	589,930
Transfer to property, plant and equipment	**(585,000)**	–
Change in fair value	**–**	(210)
At end of the period/year	**4,720**	589,720

The fair value of the Group's investment properties in Hong Kong as at 30 June 2023 and 31 December 2022 has been arrived at on the basis of a valuation carried out on the respective dates by Jones Lang LaSalle Limited, an independent qualified professional valuer not connected with the Group. Jones Lang LaSalle Limited is a member of the Hong Kong Institute of Surveyors having appropriate qualifications and recent experience in valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, is arrived at direct comparison method by reference to market evidence of transaction prices for similar properties in the same locations and conditions, and on the assumption that the Group's current use of its investment properties is at its highest and best use.

There has been no changes from the valuation technique used in prior period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

11. INVESTMENT PROPERTIES (CONTINUED)

On 1 April 2023, ATAL Tower previously classified under investment property has been transferred into assets under construction under property, plant and equipment at commencement of revitalisation work, which is due to the change of management's decision to relocate all of the major offices to ATAL Tower upon the completion of revitalisation work. The fair value of ATAL Tower amounted to HK$585,000,000 (unaudited) as at 1 April 2023 has been arrived at on the basis of a valuation carried out by Jones Lang LaSalle Limited.

The Group's investment properties in Hong Kong for rental purpose are measured by using the fair value model and are classified and accounted for as investment properties. The rental income earned by the Group from the investment properties for the six months ended 30 June 2023 amounted to approximately HK$73,000 (unaudited) (six months ended 30 June 2022: HK$4,011,000 (unaudited)). The investment properties have been pledged to secure the general banking facilities granted to certain subsidiaries of the Company for both periods.

12. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

On 1 April 2023, ATAL Tower of approximately HK$585,000,000 (unaudited) has been transferred from investment properties into assets under construction under property, plant and equipment. During the six months ended 30 June 2023, approximately HK$2,774,000 (unaudited) of bank interest expenses related to ATAL Tower were capitalised. ATAL Tower has been pledged to secure the bank borrowing of the Company for both periods.

During the six months ended 30 June 2023, the Group incurred approximately HK$16,767,000 (unaudited) (six months ended 30 June 2022: HK$4,388,000 (unaudited)) on the acquisition of property, plant and equipment.

During the six months ended 30 June 2023, the Group entered into several new lease agreements with lease terms ranged from two to three years. On lease commencement, the Group recognised right-of-use assets of approximately HK$11,835,000 (unaudited) (six months ended 30 June 2022: HK$7,230,000 (unaudited)) and lease liabilities of approximately HK$11,835,000 (unaudited) (six months ended 30 June 2022: HK$7,230,000 (unaudited)).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

13. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Investment cost		
Listed outside Hong Kong (Note i)	**92,548**	98,393
Unlisted	**240,840**	240,840
Share of post-acquisition profits and other comprehensive income, net of dividends received	**261,884**	177,018
Impairment loss recognised (Note ii)	**(94,600)**	(75,600)
Interests in associates	**500,672**	440,651
Fair value of listed investment	**944,162**	914,873
Amount due from an associate (Note iii)	**98,575**	96,575
Less: Share of post-acquisition losses in excess of the cost of investment	**(98,575)**	(96,575)
	–	–

Notes:

(i) During the six months ended 30 June 2023, Nanjing Canatal Data-Centre Environmental Tech Company Ltd. ("NCA") issued an aggregate of approximately 83,221,000 (unaudited) new ordinary shares to 15 new investors, and resulted in the decrease of the Group's interest in NCA from 21.44% (audited) as at 31 December 2022 to 16.83% (unaudited). A gain on dilution of approximately HK$124,125,000 (unaudited) was recognised for the six months ended 30 June 2023.

During the six months ended 30 June 2023, the Group disposed of 1% of its shareholding in NCA at an aggregate consideration of approximately RMB56,513,000 (unaudited) (equivalent to approximately HK$61,316,000 (unaudited)). The net proceeds from the disposal amounted to approximately RMB54,285,000 (unaudited) (equivalent to approximately HK$58,899,000 (unaudited)), net of transaction cost of approximately RMB2,228,000 (unaudited) (equivalent to approximately HK$2,417,000 (unaudited)). As a result of the disposal, the Group's interest in NCA decreased from 16.83% (unaudited) to 15.83% (unaudited) as at 30 June 2023, and a gain on disposal of approximately HK$38,725,000 (unaudited) was recognised for the six months ended 30 June 2023.

During the six months ended 30 June 2022, the Group disposed of 1% of its shareholding in NCA at an aggregate consideration of approximately RMB35,672,000 (unaudited) (equivalent to approximately HK$43,681,000 (unaudited)). The net proceeds from the disposal amounted to approximately RMB34,499,000 (unaudited) (equivalent to approximately HK$42,243,000 (unaudited)), net of transaction cost of approximately RMB1,173,000 (equivalent to approximately HK$1,438,000 (unaudited)). As a result of the disposal, the Group's interest in NCA decreased from 22.44% as at 31 December 2021 to 21.44% as at 30 June 2022, and a gain on disposal of approximately HK$31,717,000 (unaudited) was recognised for the six months ended 30 June 2022.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

13. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE (CONTINUED)

Notes: (Continued)

(ii) In view of Transel Elevator & Electric Inc. ("TEI"), an associate of the Group, did not perform as expected during the six months ended 30 June 2023 and 2022, the Group performed impairment assessment on the interest in this associate as at 30 June 2023 and 2022. The Group engaged a third party qualified valuer to perform the valuation. Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associate which is the higher of value in use and fair value less costs of disposal. The recoverable amount of the Group's interest in TEI has been determined based on a value in use calculation. The recoverable amount is based on certain key assumptions including discount rate and revenue growth rate. The value in use calculation uses cash flow projections based on financial forecasts approved by management covering a 5-year period with a pre-tax discount rate of 25% (unaudited) (six months ended 30 June 2022: 24% (unaudited)). Cash flow projections beyond the 5-year period are extrapolated using a steady 2.1% (unaudited) growth rate (six months ended 30 June 2022: 2% (unaudited)). This growth rate does not exceed the average long-term growth rate for the relevant industry in which the business of TEI operates.

Cash flow projections during the forecast period for TEI are also based on management's estimation of cash inflows/outflows including gross revenue, gross margin, operating expenses and working capital requirements during the forecast period. The assumptions and estimations are based on TEI's past performance, management's expectations of the market development. The cash flow projections, revenue growth rate and discount rate have been reassessed as at 30 June 2023 taking into consideration higher degree of estimation uncertainties in the current period due to the continuing unfavourable market condition in the USA. TEI faced a lower than expected demand during the six months ended 30 June 2023, its financial performance is less satisfactory than expected. As a result, an impairment loss of HK$19,000,000 (unaudited) (six months ended 30 June 2022: HK$21,000,000 (unaudited)) has been recognised in respect of the Group's interest in TEI during the six months ended 30 June 2023.

(iii) During the six months ended 30 June 2023, the Group has entered into an amended and restated facility arrangement agreement with Oscar Bioenergy Joint Venture ("OBJV") and the Group had advance to OBJV of HK$2,000,000 (unaudited).

As at 30 June 2023, the amount due from OBJV, before the Group's share of post-acquisition losses, of approximately HK$98,575,000 (unaudited) is non-interest bearing, non-trade nature, unsecured and repayable on demand.

As at 31 December 2022, the amount due from OBJV, before the Group's share of post-acquisition losses, of approximately HK$96,575,000 (audited), in which approximately HK$13,000,000 (audited) carried interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.1% per annum, non-trade nature, unsecured and repayable on demand, the remaining balance of approximately HK$83,575,000 (audited) in 31 December 2022 was non-trade nature, unsecured, non-interest bearing and repayable on demand.

The directors of the Company consider the amount due from OBJV are unlikely to be repaid in the foreseeable future and forms part of the net investment in OBJV as at 30 June 2023 and 31 December 2022. OBJV is in the form of unincorporated and the Group has obligation to share its losses and therefore, the Group has shared post-acquisition losses that are in excess of the cost of investment amounting to approximately HK$98,575,000 (unaudited) (31 December 2022: HK$96,575,000 (audited)) as at 30 June 2023.

As at 30 June 2023, the amount due from OBJV of approximately HK$13,852,000 (unaudited) (31 December 2022: HK$13,852,000 (audited)) is trading in nature, unsecured, non-interest bearing and repayable on demand. The directors of the Company consider the amount is unlikely to be repaid in the foreseeable future and full impairment allowance has been made.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

14. CONTRACT ASSETS

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Contract assets	**1,311,457**	1,260,232
Less: allowances for credit losses	**(18,447)**	(15,868)
	1,293,010	1,244,364

As at 30 June 2023, contract assets include retention receivables of approximately HK$423,891,000 (unaudited) (31 December 2022: HK$394,171,000 (audited)). The Group generally provides their customers with one-year warranty period. Upon the expiration of retention period, the customers will provide a final inspection and acceptance certificate and pay the retention within the term specified in the contract.

Retention receivables are interest-free and repayable at the end of retention period of the respective construction contract. The Group did not have any retention receivables that were past due but not impaired at the end of the reporting period.

The changes in contract assets are due to i) adjustments arising from changes in the measure of progress of contracting work, or ii) reclassification to trade receivables when the Group has unconditional right to the consideration.

Details of the allowances for credit losses are set out in Note 15.

15. TRADE RECEIVABLES

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Trade receivables	**839,321**	859,266
Less: allowances for credit losses	**(57,455)**	(51,097)
	781,866	808,169
Unbilled revenue (Note)	**214,930**	238,692
Bills receivables	**5,548**	336
	1,002,344	1,047,197

Note: Unbilled revenue represents accrued revenue for works performed by the Group but yet to bill. The Group has unconditional right to the payment of the unbilled revenue which is expected to be billed within 90 days and received within 12 months from the end of the reporting period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

15. TRADE RECEIVABLES (CONTINUED)

As at 30 June 2023, the Group's bills receivables are of age within 6 months (31 December 2022: one year).

The Group generally allows credit period ranging from 14 to 90 days. The Group will assess the credit quality of each potential customer and define rating and credit limit for each customer.

Aging of trade receivables net of allowances for credit losses presented based on the invoice dates are as follows:

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
0 – 30 days	**485,257**	481,296
31 – 90 days	**187,425**	258,568
91 – 360 days	**108,266**	61,342
Over 1 year	**918**	6,963
Total	**781,866**	808,169

The Group applies the simplified approach to provide for expected credit losses ("ECL") prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables and contract assets.

Trade receivables and contract assets with significant balances and credit-impaired are assessed for ECL individually. The remaining trade receivables and contract assets, they are assessed collectively based on the Group's internal credit rating, historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

During the six months ended 30 June 2023, the Group recognised impairment allowance of approximately HK$11,807,000 (unaudited) (six months ended 30 June 2022: HK$7,107,000 (unaudited)) and reversed impairment allowance of approximately HK$9,215,000 (unaudited) (six months ended 30 June 2022: HK$7,566,000 (unaudited)) for not credit-impaired trade receivables, based on the collective assessment. Impairment allowance of approximately HK$10,127,000 (unaudited) (six months ended 30 June 2022: HK$4,874,000 (unaudited)) was made and approximately HK$5,573,000 (unaudited) (six months ended 30 June 2022: HK$5,430,000 (unaudited)) was reversed on credit-impaired trade receivables. During the six months ended 30 June 2023, trade debtors with gross carrying amount of approximately HK$3,719,000 (unaudited) (six months ended 30 June 2022: HK$1,568,000 (unaudited)) became credit-impaired and therefore, approximately HK$3,719,000 (unaudited) (six months ended 30 June 2022: HK$1,568,000 (unaudited)) lifetime ECL was transferred from not credit-impaired to credit-impaired.

During the six months ended 30 June 2023, the Group recognised a provision for contract assets of approximately HK$2,601,000 (unaudited) (six months ended 30 June 2022: HK$3,364,000 (unaudited)), based on the collective assessment.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

16. TRADE AND RETENTION PAYABLES

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Trade payables	**333,297**	496,420
Trade accruals	**43,495**	54,602
Retention payables	**175,578**	173,358
	552,370	724,380

The credit period on trade payables is ranging from 0 to 90 days. The aging analysis of the Group's trade payables below is presented based on the invoice date at the end of the reporting period:

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
0 – 30 days	**165,901**	247,742
31 – 90 days	**117,121**	129,953
91 – 360 days	**25,157**	88,665
Over 1 year	**25,118**	30,060
	333,297	496,420

17. OTHER PAYABLES AND ACCRUED EXPENSES

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Accrued staff costs	**136,120**	151,200
Accrued contract costs	**1,120,155**	1,137,127
Provision for litigation liabilities (Note)	**150,000**	150,000
Others	**63,026**	56,636
	1,469,301	1,494,963

Note: In November 2022, a cooperation agreement was entered into with the Hong Kong Competition Commission in relation to the resolution of certain legal proceedings. As part of the cooperation agreement, a pecuniary penalty of HK$150 million was agreed to be paid by a subsidiary of the Company. The Group has accordingly made a provision of HK$150 million (audited) for this litigation settlement during the year ended 31 December 2022. An announcement relating to the cooperation agreement was issued by the Company on 4 November 2022.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

18. BANK BORROWING

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Secured variable-rate bank loan	**270,563**	277,875
Less: amount due within one year shown under current liabilities	**(14,625)**	(14,625)
Amount shown under non-current liabilities	**255,938**	263,250
Secured loan is repayable as follows:		
– within one year	**14,625**	14,625
– within a period of more than one year but not exceeding two years	**14,625**	14,625
– within a period of more than two years but not exceeding five years	**43,875**	43,875
– more than five years	**197,438**	204,750
	270,563	277,875

At 30 June 2023 and 31 December 2022, the Group's bank borrowing is denominated in HK$ and carries interest rates at HIBOR plus a margin per annum.

The effective interest rates of bank borrowing range from 3.480% to 5.423% (31 December 2022: 1.278% to 3.525% (audited)).

The fair value of bank borrowing approximated its carrying amount.

At 30 June 2023, the bank borrowing is secured by i) the property located in Kwai Chung, Hong Kong, ii) the assignment of rental income from that property, iii) debenture containing fixed and floating charges over all assets of several wholly owned subsidiaries of the Company amounting to approximately HK$11,686,000 (unaudited) (31 December 2022: HK$8,619,000 (audited)) and iv) their issued share capital.

The Group is required to comply with certain financial, restrictive and other covenants. The Group has complied with these covenants throughout the reporting period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

19. SHARE CAPITAL

	Number of shares	Number of value per share	Share capital	Presented as HK$'000
Authorised:				
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	**100,000,000,000**	**HK$0.01**	**HK$1,000,000,000**	
Issued and fully paid:				
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	**1,400,000,000**	**HK$0.01**	**HK$14,000,000**	**14,000**

Note: During the six months ended 30 June 2022, the Company repurchased 10,800,000 shares of the Company's own ordinary shares on the Stock Exchange through the trustees of the Company's share award schemes, at prices ranging from HK$1.65 to HK$1.92 per share for an aggregate consideration of approximately HK$19,586,000. As at 30 June 2023, 4,562,000 (31 December 2022: 4,562,000) of the Company's own ordinary shares are held by the trustees.

20. SHARE-BASED PAYMENTS

Share Award Schemes of the Company

The Company adopted two share award schemes (the "Share Award Schemes"), with the similar terms except that the eligible participants of one of the Share Award Schemes ("Eligible Participants") shall not be connected persons of the Company. The Share Award Schemes are administered by independent trustees appointed by the Group. The award(s) and vesting period(s) of the awarded shares are determined by the board of directors.

During the six months ended 30 June 2023, no awarded shares were granted to awardees under the Share Award Schemes, no awarded shares were vested, 700,000 awarded shares were lapsed/forfeited and 10,290,000 awarded shares were cancelled. As at 30 June 2023, there were 13,720,000 awarded shares which are yet to be vested subject to the fulfilment of the vesting criteria and conditions.

During the year ended 31 December 2022, 45,594,000 awarded shares were granted to awardees under the Share Award Schemes. During the year ended 31 December 2022, 20,238,000 awarded shares were vested, 646,000 awarded shares were lapsed/forfeited and no awarded shares were cancelled. As at 31 December 2022, there were 24,710,000 awarded shares which are yet to be vested subject to the fulfilment of the vesting criteria and conditions.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

20. SHARE-BASED PAYMENTS (CONTINUED)

Share Award Schemes of the Company (Continued)

The table below sets out details of share awards granted to various participants/categories of participants under the Share Award Schemes:

Grantees/Category	Batch	Grant date	Vesting period	Unvested awards as at 1 January 2023	Granted during the period	Vested during the period	Lapsed/ forfeited during the period	Cancelled during the period	Unvested awards as at 30 June 2023
								(Note 3)	
Directors									
– Mr. Chan Hoi Ming	B (Note 1)	21/01/2022	21/01/2022-30/06/2023	**4,200,000**	**–**	**–**	**–**	**(4,200,000)**	**–**
	C (Note 1)	21/01/2022	21/01/2022-30/06/2024	**5,600,000**	**–**	**–**	**–**	**–**	**5,600,000**
– Mr. Cheng Wai Lung	B (Note 1)	21/01/2022	21/01/2022-30/06/2023	**240,000**	**–**	**–**	**–**	**(240,000)**	**–**
(Note 5)	C (Note 1)	21/01/2022	21/01/2022-30/06/2024	**320,000**	**–**	**–**	**–**	**–**	**320,000**
			Subtotal	**10,360,000**	**–**	**–**	**–**	**(4,440,000)**	**5,920,000**
Employees	B (Note 1)	21/01/2022	21/01/2022-30/06/2023	**6,150,000**	**–**	**–**	**(300,000)**	**(5,850,000)**	**–**
	C (Note 1)	21/01/2022	21/01/2022-30/06/2024	**8,200,000**	**–**	**–**	**(400,000)**	**–**	**7,800,000**
			Subtotal	**14,350,000**	**–**	**–**	**(700,000)**	**(5,850,000)**	**7,800,000**
			Total	**24,710,000**	**–**	**–**	**(700,000)**	**(10,290,000)**	**13,720,000**

Grantees/Category	Batch	Grant date	Vesting period	Unvested awards as at 1 January 2022	Granted during the year	Vested during the year	Lapsed/ forfeited during the year	Unvested awards as at 31 December 2022
						(Note 4)		
Directors								
– Mr. Chan Hoi Ming	A (Note 1)	21/01/2022	21/01/2022-30/06/2022	–	4,200,000	(4,200,000)	–	–
	B (Note 1)	21/01/2022	21/01/2022-30/06/2023	–	4,200,000	–	–	4,200,000
	C (Note 1)	21/01/2022	21/01/2022-30/06/2024	–	5,600,000	–	–	5,600,000
– Mr. Law Wei Tak	D (Note 2)	15/07/2022	15/07/2022-15/08/2022	–	4,500	(4,500)	–	–
			Subtotal	–	14,004,500	(4,204,500)	–	9,800,000
Employees	A (Note 1)	21/01/2022	21/01/2022-30/06/2022	–	6,600,000	(6,570,000)	(30,000)	–
	B (Note 1)	21/01/2022	21/01/2022-30/06/2023	–	6,600,000	–	(210,000)	6,390,000
	C (Note 1)	21/01/2022	21/01/2022-30/06/2024	–	8,800,000	–	(280,000)	8,520,000
	D (Note 2)	15/07/2022	15/07/2022-15/08/2022	–	9,589,500	(9,463,500)	(126,000)	–
			Subtotal	–	31,589,500	(16,033,500)	(646,000)	14,910,000
			Total	–	45,594,000	(20,238,000)	(646,000)	24,710,000

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

20. SHARE-BASED PAYMENTS (CONTINUED)

Share Award Schemes of the Company (Continued)

Notes:

1. Subject to fulfilment of all the vesting criteria and conditions, the awarded shares granted on 21 January 2022 would be vested in three tranches as follows: (i) 30% of the awarded shares were vested on 30 June 2022 (Batch A); (ii) 30% of the awarded shares would be vested on 30 June 2023 (Batch B); and (iii) the remaining 40% of the awarded shares would be vested on 30 June 2024 (Batch C).

2. The awarded shares were legally transferred to the eligible employees on 15 July 2022 (Batch D). Such awards were communicated and the Company and the employees have a shared understanding of the relevant terms and conditions on 28 March 2022.

3. Apart from the awarded shares lapsed during the six months ended 30 June 2023, all other awarded shares under Batch B were cancelled during the current interim period.

4. The weighted average closing price of the shares immediately before the dates on which the share awards were vested during the year ended 31 December 2022 was approximately HK$1.31 (audited).

5. Mr. Cheng Wai Lung was appointed as director on 1 January 2023.

Share Option Scheme

No share option has ever been granted since the effective date of the adoption of the share option scheme on 12 July 2019 (the "Share Option Scheme") up to the date of the issuance of these condensed consolidated financial statements.

Details of the Share Award Schemes and the Share Option Scheme adopted by the Company are set out in the annual report for the year ended 31 December 2022.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

21. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group are pledged to secure the bank borrowing of the Company and the general banking facilities granted to certain subsidiaries of the Company:

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Properties	**656,074**	68,300
Investment properties	**4,720**	589,720
Bank deposits	**25,761**	25,818
Others (Note)	**29,929**	15,979
	716,484	699,817

Note: Included in others, there was the assignment of certain trade receivables of a wholly owned subsidiary of the Company of approximately HK$18,243,000 (unaudited) (31 December 2022: HK$7,360,000 (audited)) and fixed and floating charges over all assets of several wholly owned subsidiaries of the Company amounting to approximately HK$11,686,000 (unaudited) (31 December 2022: HK$8,619,000 (audited)) (Note 18).

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis

Certain of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. Information about how the fair value of these financial assets and financial liabilities are determined including valuation technique and key input as well as the level of fair value hierarchy of which the fair value measurements are categorised based on the degree to which the inputs to the fair value measurements are observable is listed below.

	Fair value			
Financial liabilities	**As at 30 June 2023 HK$'000 (Unaudited)**	As at 31 December 2022 HK$'000 (Audited)	**Fair value hierarchy**	**Valuation technique and key input**
Derivative financial liabilities	**1,621**	2,776	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 or Level 2 during both periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on recurring basis

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate to their fair values based on discounted cash flows analysis.

23. PERFORMANCE BONDS

As at 30 June 2023, the Group had outstanding performance bonds of approximately HK$541,374,000 (unaudited) (31 December 2022: HK$584,871,000 (audited)), given by banks in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and its customers. If the Group fails to provide satisfactory performance to its customers to whom performance bonds have been given, such customers may demand the banks to pay to them the sum or sum stipulated in such demand. The Group will become liable to compensate such banks accordingly. The performance bonds will be released upon completion of the contracting works.

24. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with the related parties disclosed in the condensed consolidated statement of financial position on pages 20 to 21, the Group entered into the following transactions with related parties during the respective reporting period:

			Six months ended 30 June	
Name of related company	**Relationship**	**Nature of transactions**	**2023 HK$'000 (Unaudited)**	2022 HK$'000 (Unaudited)
OBJV	Associate	Sales	**1,604**	4,438
OBJV	Associate	Interest income	**–**	95
Perfect Motive Limited ("Perfect Motive")	Related party (Note)	Repayment of lease liabilities	**7,956**	8,100
Perfect Motive	Related party (Note)	Direct expenses recharge	**280**	281
TEI	Associate	Sales	**40**	2,203

Note: Perfect Motive is a subsidiary of Arling Investment Limited, the Company's immediate holding company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

24. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the six months ended 30 June 2023 and 2022 are set out in Note 8.

25. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following commitments contracted but not provided in the condensed consolidated financial statements:

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Expanding existing manufacturing facilities	**4,740**	10,622
Human resources management system	**–**	125
Revitalisation of properties	**4,981**	6,832
	9,721	17,579

Interim Dividend

The Board has declared an interim dividend of HK8.52 cents per share of the Company (the “Share(s)”) for the reporting period (the “Interim Dividend”) to the shareholders whose names appear on the register of members of the Company (the “Register of Members”) as at the close of business on Thursday, 14 September 2023. The Interim Dividend is expected to be paid to the shareholders of the Company (the “Shareholders”) on or about Thursday, 28 September 2023.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining Shareholders’ entitlement to the Interim Dividend, the Register of Members will be closed from Wednesday, 13 September 2023 to Thursday, 14 September 2023, both days inclusive, during which period no transfer of Shares will be registered. The Shares will be traded ex-dividend as from Monday, 11 September 2023. In order to be entitled to the Interim Dividend, Shareholders must lodge all transfer documents accompanied by the relevant share certificates with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 12 September 2023.

Other Information

INTERNATIONAL SANCTIONS

During the reporting period, the Group did not enter into any transactions with persons or entities that are currently subject to applicable laws and regulations related to economic sanctions, export controls, and trade embargoes, including those adopted, administered and enforced by the U. S. Government, the European Union and its member states, United Nations or the Government of Australia (the "International Sanctions"). Specifically, the Group did not enter into any transactions with: (i) persons or entities listed on the Office of Foreign Assets Control (OFAC)'s Specially Designated Nationals and Blocked Persons List (the SDN List); (ii) entities on the U.S. Bureau of Industry and Security's Entity List (the "Entity List"), or (iii) persons or entities on other restricted party lists maintained by the United States, the European Union, the United Nations or Australia (the "Sanctioned Persons").

The risks management committee (sanctions risks) of the Company (the "Risk Management Committee (Sanctions Risks)"), which was established by the Board, will continue to monitor and evaluate the Group's exposure to economic sanctions risks and take measures to comply with the Group's continuing undertakings to the Stock Exchange. The Group has implemented, among others, the following measures upon listing of the Shares on the Stock Exchange:

- The directors of the Company (the "Directors") will continuously monitor the use of any remaining proceeds from the global offering of the Company in 2019 to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, countries subject to International Sanctions or Sanctioned Persons where this would be in breach of International Sanctions; and

- The Risk Management Committee (Sanctions Risks) will hold at least two meetings each year to monitor the Group's exposure to sanctions risks. Further, the Risk Management Committee (Sanctions Risks) has written procedures that the Company has followed and will continue to follow whenever any business opportunity or transaction is presented that may pose any sanctions risk to the Group. If any potential sanctions risk is identified, the Company will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions matters.

The Directors are of the view that the measures adopted provide an adequate and effective internal control framework to assist the Group in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of the Shareholders and the Company.

REVIEW OF INTERIM RESULTS

The Audit Committee of the Company was established by the Board for the purposes of, among other things, reviewing and providing supervision over the Group's financial reporting process and internal controls. It currently comprises two independent non-executive Directors and one non-executive Director. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2023 and this report, and discussed financial related matters with the management and the external auditors of the Company.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2023 have been reviewed by the Company's external auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Other Information

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance practices and procedures. The Company adopted the principles and code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the basis of the Company's corporate governance practices. During the reporting period, the Company has complied with all the code provisions set out in the Corporate Governance Code.

DIRECTORS' DEALINGS IN THE COMPANY'S SECURITIES

The Company adopted the securities dealing code on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code").

In response to specific enquiries made by the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code and the securities dealing code adopted by the Company during the reporting period.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the last published annual report up to the date of this report are set out below and in the announcements previously disclosed by the Company.

1) Dr. Poon Lok To, Otto stepped down as an Advisor to the Hong Kong Alliance of Technology and Innovation on 20 June 2023.

2) Dr. Poon Lok To, Otto ceased to be a founding fellow member of the Hong Kong Institute of Qualified Environmental Professionals in the first quarter of 2023.

3) Ms. Shing Mo Han, Yvonne was appointed as a member of the Hong Kong Deposit Protection Board on 1 July 2023.

4) The salaries of the following Directors were increased as follows:

Name of Directors	Amount of new salary (HK$)	Effective Date
Dr. Mak Kin Wah	155,940 per month	1 April 2023
Mr. Law Wei Tak	216,080 per month	1 April 2023

5) The director's fees of the following Directors were increased as follows:

Name of Directors	Amount of new director's fee (HK$)	Effective Date
Mr. Chan Fu Keung	480,000 per annum	1 July 2023
Mr. Lam Kin Fung, Jeffrey	480,000 per annum	1 July 2023

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2023, the interests and short positions of the Directors in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interests and/or short positions in the Company

Name of Director	Capacity/ Nature of interest	Number of Shares held (Note 1)	Number of underlying Shares held (Note 1)	Approximate percentage of shareholding (Note 5)
Dr. Poon Lok To, Otto	Founder of a discretionary trust (Note 2)	888,650,000	–	63.48%
Dr. Poon Lok To, Otto	Beneficial owner	3,672,000	–	0.26%
Mr. Law Wei Tak	Beneficial owner	52,504,500	–	3.75%
Mr. Chan Hoi Ming	Beneficial owner	4,200,000 (Note 3)	–	0.30%
Mr. Chan Hoi Ming	Beneficial owner	–	5,600,000 (Note 3)	0.40%
Mr. Cheng Wai Lung	Beneficial owner	244,500 (Note 4)	–	0.02%
Mr. Cheng Wai Lung	Beneficial owner	–	320,000 (Note 4)	0.02%

Notes:

1. All the above interests in the Shares and underlying Shares are long positions.

2. Arling Investment Limited directly held 888,650,000 Shares, representing approximately 63.48% of the total issued share capital of the Company. Arling Investment Limited is wholly owned by Ardik Investment Limited which is in turn wholly owned by HSBC International Trustee Limited as trustee of a trust. Dr. Poon Lok To, Otto is the settlor and protector of the trust. Accordingly, Dr. Poon Lok To, Otto is deemed to be interested in the same number of Shares held by Arling Investment Limited under Part XV of SFO.

3. Mr. Chan Hoi Ming was awarded with 14,000,000 Shares on 21 January 2022 pursuant to a share award scheme of the Company. Out of the 14,000,000 awarded Shares, (i) 4,200,000 Shares were vested on 30 June 2022; and (ii) 4,200,000 awarded Shares with vesting date of 30 June 2023 were not vested and were cancelled as not all the vesting conditions were fulfilled. Assuming all the vesting criteria and conditions have been fulfilled, the remaining 5,600,000 awarded Shares will be vested on 30 June 2024.

4. Mr. Cheng Wai Lung was awarded with 800,000 Shares on 21 January 2022 pursuant to a share award scheme of the Company. Out of the 800,000 awarded Shares, (i) 240,000 Shares were vested on 30 June 2022; and (ii) 240,000 awarded Shares with vesting date of 30 June 2023 were not vested and were cancelled as not all the vesting conditions were fulfilled. Assuming all the vesting criteria and conditions have been fulfilled, the remaining 320,000 awarded Shares will be vested on 30 June 2024.

5. The percentage of shareholding is calculated on the basis of 1,400,000,000 Shares in issue as at 30 June 2023.

Other Information

(ii) Interests and/or short positions in associated corporations of the Company

Name of Director	Capacity/ Nature of interest	Name of associated corporations (Note 2)	Number of shares held (Note 1)	Percentage of shareholding
Dr. Poon Lok To, Otto	Founder of a discretionary trust (Note 2)	Arling Investment Limited	2	100.00%
Dr. Poon Lok To, Otto	Founder of a discretionary trust (Note 2)	Wise Eagle Holdings Limited	8,463	84.63%
Mr. Law Wei Tak	Beneficial owner	Wise Eagle Holdings Limited	500	5.00%
Dr. Poon Lok To, Otto	Founder of a discretionary trust (Note 2)	Perfect Motive Limited	1	100.00%

Notes:

1. All the above interests in the shares of Arling Investment Limited, Wise Eagle Holdings Limited and Perfect Motive Limited are long positions.

2. As at 30 June 2023, Arling Investment Limited owned approximately 63.48% of the total issued share capital of the Company. Arling Investment Limited also owned 8,463 shares of Wise Eagle Holdings Limited, representing 84.63% of the total issued share capital of Wise Eagle Holdings Limited, which in turn owned 1 share of Perfect Motive Limited, representing 100% of the issued share capital of Perfect Motive Limited. Accordingly, Arling Investment Limited, being the holding company of the Company; and Wise Eagle Holdings Limited and Perfect Motive Limited, being subsidiaries of Arling Investment Limited, are therefore associated corporations of the Company within the meaning of Part XV of the SFO. Arling Investment Limited is wholly owned by Ardik Investment Limited which is in turn wholly owned by HSBC International Trustee Limited as trustee of a trust. Dr. Poon Lok To, Otto is the settlor and protector of the trust. Accordingly, Dr. Poon Lok To, Otto is deemed to be interested in (i) the shares of Arling Investment Limited; and (ii) the shares of Wise Eagle Holdings Limited and Perfect Motive Limited in which Arling Investment Limited is deemed to be interested, under Part XV of the SFO.

Save as disclosed above, as at 30 June 2023, none of the Directors or the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated associations (within the meaning of Part XV of the SFO), as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS/OTHER PERSON'S INTERESTS IN SECURITIES

As at 30 June 2023, as far as being known to the Directors, the following persons (other than the Directors) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

(i) Substantial Shareholders' (as defined in the Listing Rules) interests in securities

Name	Capacity/ Nature of Interest	Number of Shares held (Note 1)	Approximate shareholding percentage (Note 3)
HSBC International Trustee Limited	Trustee of a discretionary trust (Note 2)	888,650,000	63.48%
Ardik Investment Limited	Interest of controlled corporation (Note 2)	888,650,000	63.48%
Arling Investment Limited	Beneficial owner	888,650,000	63.48%
Ms. Cheng Teresa Yeuk Wah ("Ms. Cheng")	Interest of Spouse (Note 2)	892,322,000	63.74%

Notes:

1. All the above interests in the Shares are long positions.

2. Arling Investment Limited directly held 888,650,000 Shares, representing approximately 63.48% of the total issued share capital of the Company. Arling Investment Limited is wholly owned by Ardik Investment Limited which is in turn wholly owned by HSBC International Trustee Limited as trustee of a trust. Dr. Poon Lok To, Otto is the settlor and protector of the trust. Accordingly, each of Ardik Investment Limited, HSBC International Trustee Limited and Dr. Poon Lok To, Otto is deemed to be interested in the 888,650,000 Shares held by Arling Investment Limited under Part XV of the SFO. Dr. Poon owns 3,672,000 Shares as beneficial owner. As Ms. Cheng is the spouse of Dr. Poon Lok To, Otto, Ms. Cheng is deemed to be interested in the same number of Shares that Dr. Poon Lok To, Otto is interested in under Part XV of the SFO. According to section 316(1)(a) of the SFO, Ms. Cheng is deemed to be interested in any voting shares in a Hong Kong listed company in which her spouse is interested. Accordingly, Ms. Cheng is taken to be interested in 892,322,000 Shares, while Ms. Cheng does not have any legal or beneficial ownership or financial interests in any of the Shares, directly or indirectly. It follows that Ms. Cheng does not have any rights to the Shares, has no rights to dividend, has no rights to vote and has no rights to deal in respect of the Shares.

3. The percentage of shareholding is calculated on the basis of 1,400,000,000 Shares in issue as at 30 June 2023.

Other Information

(ii) Other person's interests in securities

Name	Capacity/ Nature of Interest	Number of Shares held (Note 1)	Approximate shareholding percentage (Note 3)
Mr. Webb David Michael ("Mr. Webb")	Interest of controlled corporation (Note 2)	112,084,000	8.00%

Notes:

1. All the above interests in the Shares are long positions.

2. Mr. Webb is personally interested in 46,300,200 Shares. Preferable Situation Assets Limited (a company 100% controlled by Mr. Webb) is interested in 65,783,800 Shares. Accordingly, Mr. Webb is deemed to be interested in the 65,783,800 Shares owned by Preferable Situation Assets Limited by virtue of Part XV of the SFO.

3. The percentage of shareholding is calculated on the basis of 1,400,000,000 Shares in issue as at 30 June 2023.

Save as disclosed above, as at 30 June 2023, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares which would fall to be disclosed in the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME AND SHARE AWARD SCHEMES

The share option scheme of the Company (the "Share Option Scheme") was adopted by written resolutions of shareholders on 14 September 2018 and came into effect on 12 July 2019, the date on which the Shares first listed on the Stock Exchange. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as defined in the Share Option Scheme as incentives or rewards for their contribution to the Group. No share option was granted, exercised, cancelled or lapsed under the Share Option Scheme during the reporting period nor remained outstanding as at 30 June 2023. The total number of Shares which may be issued upon exercise of all the share options to be granted under the Share Option Scheme at the beginning and the end of the six months ended 30 June 2023 is 140,000,000 Shares, representing 10% of the Company's total number of issued Shares as at 30 June 2023.

The share award schemes of the Company (the "Share Award Schemes") were adopted on 27 November 2020. The purpose of the Share Award Schemes is to recognise and reward the contributions of certain eligible participants to the growth and development of the Group and to provide incentive in order to retain them for the continual operation and development of the Group. During the reporting period, no awarded Shares were granted to awardees under the Share Award Schemes. During the reporting period, 700,000 awarded Shares lapsed and 10,290,000 awarded Shares with vesting date of 30 June 2023 were not vested to the awardees and were cancelled as not all the vesting conditions were fulfilled. As at 30 June 2023, there were 13,720,000 awarded Shares which are yet to be vested subject to the fulfilment of the vesting criteria and conditions.

Details of the interests of Mr. Chan Hoi Ming and Mr. Cheng Wai Lung, each an executive Director, in awarded Shares granted under the relevant Share Award Scheme are set out below. No other Directors have any interest in awarded Shares under the Share Award Schemes as at 30 June 2023.

For the six months ended 30 June 2023

			Number of awarded Shares					
	Date of award	Vesting Period	Unvested awarded Shares as at 01.01.2023	Granted During the period	Vested during the period	Lapsed during the period	Cancelled during the period	Unvested awarded Shares as at 30.06.2023
Mr. Chan Hoi Ming	21.01.2022	30.06.2023 to 30.06.2024 (Note 1)	9,800,000 (Note 1)	–	–	–	(4,200,000) (Note 1)	5,600,000 (Note 1)
Mr. Cheng Wai Lung	21.01.2022	30.06.2023 to 30.06.2024 (Note 2)	560,000 (Note 2)	–	–	–	(240,000) (Note 2)	320,000 (Note 2)

Notes:

1. Mr. Chan Hoi Ming was awarded with 14,000,000 Shares on 21 January 2022 pursuant to one of the Share Award Schemes. Out of the 14,000,000 awarded Shares, (i) 4,200,000 Shares were vested on 30 June 2022; and (ii) 4,200,000 awarded Shares with vesting date of 30 June 2023 were not vested and were cancelled as not all the vesting conditions were fulfilled. Assuming all the vesting criteria and conditions have been fulfilled, the remaining 5,600,000 awarded Shares will be vested on 30 June 2024.

2. Mr. Cheng Wai Lung was awarded with 800,000 Shares on 21 January 2022 pursuant to one of the Share Award Schemes. Out of the 800,000 awarded Shares, (i) 240,000 Shares were vested on 30 June 2022; and (ii) 240,000 awarded Shares with vesting date of 30 June 2023 were not vested and were cancelled as not all the vesting conditions were fulfilled. Assuming all the vesting criteria and conditions have been fulfilled, the remaining 320,000 awarded Shares will be vested on 30 June 2024.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the reporting period.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Dr. Poon Lok To, Otto *(Chairman)*
Mr. Chan Hoi Ming *(Chief Executive Officer)*
Mr. Law Wei Tak
Mr. Cheng Wai Lung

Non-executive Director
Dr. Mak Kin Wah *(Deputy Chairman)*
Ms. Or Siu Ching, Rerina

Independent non-executive Directors
Mr. Chan Fu Keung
Mr. Lam Kin Fung, Jeffrey
Ms. Shing Mo Han, Yvonne

AUDIT COMMITTEE

Ms. Shing Mo Han, Yvonne *(Chairman)*
Mr. Chan Fu Keung
Dr. Mak Kin Wah

REMUNERATION COMMITTEE

Mr. Chan Fu Keung *(Chairman)*
Ms. Shing Mo Han, Yvonne
Dr. Mak Kin Wah

NOMINATION COMMITTEE

Mr. Lam Kin Fung, Jeffrey *(Chairman)*
Mr. Chan Fu Keung
Ms. Shing Mo Han, Yvonne
Dr. Mak Kin Wah

COMPANY SECRETARY

Ms. Li Kit Chi, Fiona

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Central
Hong Kong

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

13th Floor, Island Place Tower
510 King's Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Ocorian Management (Bermuda) Limited
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

1977

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