THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Analogue Holdings Limited, you should at once hand this Circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

ATAL

Analogue Holdings Limited
安樂工程集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1977)

MAJOR TRANSACTION INVOLVING THE ACQUISITION OF 51% OF EQUITY INTERESTS IN THE TARGET COMPANY AND GRANT OF THE PUT RIGHT AND MAJOR AND CONNECTED TRANSACTION INVOLVING THE DISPOSAL OF 2% OF EQUITY INTERESTS IN THE TARGET COMPANY

Capitalised terms used on this cover shall have the same meanings as those defined in this Circular, unless the context requires otherwise. A letter from the Board is set out on pages 9 to 23 of this Circular.

This Circular is despatched to the Shareholders for information purpose only, and written Shareholder's approvals have been obtained in lieu of holding a general meeting of the Company pursuant to the Listing Rules.

30 November 2020

CONTENTS

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

"Acquisition"	the acquisition of the Offered Shares by Anlev (US) from the Acquisition Sellers pursuant to the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the stock purchase agreement dated 31 March 2020 (Eastern Time) entered into among the Acquisition Sellers and Anlev (US) in relation to the Acquisition
"Acquisition Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement, which took place on the date of the Acquisition Agreement (Eastern Time)
"Acquisition Consideration"	the aggregate consideration payable by Anlev (US) to the Acquisition Sellers for the Offered Shares in the amount of US$35.7 million (equivalent to approximately HK$278.46 million), subject to adjustment in accordance with the terms of the Acquisition Agreement
"Acquisition Seller(s)"	Mr. Gregorio and the Other Existing Shareholders, each an individual
"Actual Performance"	for any Period, the Target Company's net income before tax determined in accordance with GAAP
"Amendment Document"	the amendment, consent and waiver dated 10 August 2020 (Eastern Time) entered into among Anlev (US), Mr. Gregorio, the Other Existing Shareholders and the Target Company to amend and supplement the Shareholders' Agreement
"Anlev (US)"	Anlev (US) LLC, a Delaware limited liability company and an indirect wholly-owned subsidiary of the Company
"Board"	the board of Directors
"Book Value Option"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Target Company's Book Value Option and Leaver Options" in the Letter from the Board of this Circular

"Business Day(s)"	any day except Saturday, Sunday or any other day on which commercial banks located in New York or Hong Kong are authorised or required by law to be closed for business
"Call Right"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Acquisition Sellers' Put Right and Anlev (US)'s Call Right" in the Letter from the Board of this Circular
"Change of Control"	being any of the following events: (a) the sale of all or substantially all of the consolidated assets of the Target Company and its subsidiaries to a third party purchaser; (b) a sale resulting in no less than a majority of the shares of the Target Company (or other voting stock of the Target Company) being held by a third party purchaser; or (c) a merger, consolidation, recapitalization or reorganization of the Target Company with or into a third party purchaser that results in the inability of the shareholders of the Target Company to designate or elect a majority of the board of directors (or its equivalent) of the resulting entity or its parent company
"Circular"	this circular of the Company dated 30 November 2020 in respect of the Acquisition Agreement, the Shareholders' Agreement, the Disposal Agreement and the respective transactions contemplated thereunder
"Closing Adjustment"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"Closing Payment"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Acquisition Consideration" in the Letter from the Board of this Circular

"Closing Statement"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"Company"	Analogue Holdings Limited (stock code: 1977), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
"Cut-off Time"	11:59 p.m. (Eastern Time) on the day before the Acquisition Completion
"Deferred Payment"	the First Deferred Payment or the Second Deferred Payment, as applicable
"Directors"	directors of the Company
"Disposal"	the disposal of the Sale Shares from Anlev (US) to Mr. Gregorio pursuant to the terms and conditions of the Disposal Agreement
"Disposal Agreement"	the share purchase agreement dated 10 August 2020 (Eastern Time) entered into among Anlev (US) and Mr. Gregorio in relation to the Disposal
"Disposal Completion"	completion of the Disposal in accordance with the terms and conditions of the Disposal Agreement, which took place at 10:00 a.m. (Eastern Time) on the date of the Disposal Agreement
"Disposal Consideration"	the consideration payable by Mr. Gregorio to Anlev (US) for the Sale Shares in the amount of US$1.4 million (equivalent to approximately HK$10.92 million)
"Eastern Time"	Eastern Time Zone
"Employment Agreement(s)"	the employment agreements dated 31 March 2020 executed between each of the Acquisition Sellers and the Target Company upon the Acquisition Completion for their provision of administrative, financial and other executive and managerial services to the Target Company

"Enlarged Group"	the Group as enlarged by the Target Company (i) upon the Acquisition Completion but before the Disposal and (ii) assuming that the Put Right has been exercised as required under Rule 14.74 of the Listing Rules
"Estimated Closing Working Capital"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"Estimated Indebtedness"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"Estimated Transaction Expenses"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"Final Closing Working Capital"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"Final Indebtedness"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"Final Transaction Expenses"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"First Deferred Payment"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Acquisition Consideration" in the Letter from the Board of this Circular
"First Period"	the period from 1 July 2020 to 30 June 2021
"GAAP"	United States generally accepted accounting principles in effect from time to time

"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	any person or company and their respective ultimate beneficial owner(s) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons (as defined in the Listing Rules)
"Latest Practicable Date"	26 November 2020, being the latest practicable date prior to printing of this Circular for ascertaining certain information contained in this Circular
"Leaver"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Target Company's Book Value Option and Leaver Options" in the Letter from the Board of this Circular
"Leaver Options"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Target Company's Book Value Option and Leaver Options" in the Letter from the Board of this Circular
"Leaver's Shares"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Target Company's Book Value Option and Leaver Options" in the Letter from the Board of this Circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Gregorio"	Mark Gregorio, an individual
"Offered Shares"	34 issued shares of the Target Company, representing 51% of the equity interests in the Target Company

"Option Period"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Target Company's Book Value Option and Leaver Options" in the Letter from the Board of this Circular
"Other Existing Shareholders"	apart from Mr. Gregorio, all other existing shareholders of the Target Company as at the date of the Acquisition Agreement and the Disposal Agreement, respectively, who are five individuals being (a) Michael Staub; (b) Juan Rondon; (c) Kevin Lynch; (d) Wayne Locker; and (e) Angela Williams
"Period"	the First Period or the Second Period, as applicable
"Permitted Termination Date"	for each of Kevin Lynch and Wayne Locker, the second anniversary of the date of the Shareholders' Agreement and for each other Acquisition Seller, the seventh anniversary of the date of the Shareholders' Agreement
"Post-Closing Adjustment"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Adjustment to the Acquisition Consideration" in the Letter from the Board of this Circular
"PRC"	the People's Republic of China
"Prospectus"	the prospectus of the Company dated 28 June 2019
"Purchase Price"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Acquisition Sellers' Put Right and Anlev (US)'s Call Right" in the Letter from the Board of this Circular
"Put Right"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Acquisition Sellers' Put Right and Anlev (US)'s Call Right" in the Letter from the Board of this Circular
"Sale Shares"	1 and 1/3rds of a share of common stock of the Target Company, representing 2% of the equity interests in the Target Company

"Second Deferred Payment"	has the meaning ascribed to it in the section headed "THE ACQUISITION – The Acquisition Agreement – Acquisition Consideration" in the Letter from the Board of this Circular
"Second Period"	the period from 1 July 2021 to 30 June 2022
"Selling Shareholder"	has the meaning ascribed to it in the section headed "SHAREHOLDERS' AGREEMENT – Right of first refusal" in the Letter from the Board of this Circular
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Agreement"	the shareholders' agreement dated 31 March 2020 (Eastern Time) (as amended and supplemented by the Amendment Document) entered into among the Acquisition Sellers, Anlev (US) and the Target Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning as ascribed thereto under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Target Company"	Transel Elevator & Electric Inc., a corporation incorporated in New York that is principally engaged in the business of providing new construction, modernization, repair and maintenance services in the vertical transportation sector for both residential and commercial real estate customers
"Target Performance"	(i) for the First Period, the Target Company's achievement of net income before tax of US$14,500,961, and (ii) for the Second Period, the Target Company's achievement of net income before tax of US$15,479,598

"US$"	United States Dollars, the lawful currency of the USA
"USA"	United States of America
"%"	per cent

Analogue Holdings Limited
安樂工程集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1977)

Executive Directors:
Dr. Poon Lok To Otto *(Chairman)*
Mr. Law Wei Tak
Mr. Chan Hoi Ming

Non-executive Director:
Dr. Mak Kin Wah *(Deputy Chairman)*

Independent non-executive Directors:
Mr. Chan Fu Keung
Mr. Lam Kin Fung Jeffrey
Mr. Wong King On Samuel

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

Head Office and Principal Place of Business in Hong Kong:
13th Floor, Island Place Tower
510 King's Road
North Point
Hong Kong

30 November 2020

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
INVOLVING THE ACQUISITION OF
51% OF EQUITY INTERESTS IN THE TARGET COMPANY
AND GRANT OF THE PUT RIGHT
AND MAJOR AND CONNECTED TRANSACTION
INVOLVING THE DISPOSAL OF
2% OF EQUITY INTERESTS IN THE TARGET COMPANY**

INTRODUCTION

References are made to (i) the announcement of the Company dated 31 March 2020 in relation to the Acquisition under the Acquisition Agreement and the grant of the Put Right under the Shareholders' Agreement, respectively; and (ii) the announcement of the Company dated 11 August 2020 in relation to the Disposal.

The purpose of this Circular is to provide you with, among other things, (i) information regarding the Acquisition Agreement and the Shareholders' Agreement; (ii) the Disposal Agreement; and (iii) other information required under the Listing Rules.

THE ACQUISITION

On 31 March 2020 (Eastern Time and after trading hours of the Stock Exchange), Anlev (US), an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Acquisition Sellers in relation to the Acquisition, pursuant to which the Acquisition Sellers have agreed to sell, and Anlev (US) has agreed to purchase, the Offered Shares for an aggregate consideration of US$35.7 million (equivalent to approximately HK$278.46 million). The Acquisition Consideration is subject to adjustment in accordance with the terms of the Acquisition Agreement and will be settled in cash by stages.

The Acquisition Agreement

The major terms of the Acquisition Agreement are as follows:

Date: 31 March 2020 (Eastern Time and after trading hours of the Stock Exchange)

Parties: Buyer: Anlev (US) LLC, an indirect wholly-owned subsidiary of the Company

Sellers: Six individuals as follows:

Seller	Approximate percentage of Offered Shares to be sold to Anlev (US)
Mark Gregorio	30.60%
Michael Staub	15.30%
Juan Rondon	2.04%
Kevin Lynch	1.53%
Wayne Locker	1.02%
Angela Williams	0.51%

To the best of knowledge, information and belief of the Directors having made all reasonable enquiries, all of the Acquisition Sellers were Independent Third Parties as at the date of the Acquisition Agreement.

Subject of the Acquisition

Pursuant to the Acquisition Agreement, the Acquisition Sellers have agreed to sell, and Anlev (US) has agreed to purchase, the Offered Shares, representing 51% of the equity interests in the Target Company, free and clear of all encumbrances upon the Acquisition Completion, except encumbrances imposed generally by United States federal and state securities laws or the Shareholders' Agreement. The Acquisition Completion took place immediately upon signing of the Acquisition Agreement on the date of the Acquisition Agreement (Eastern Time).

Acquisition Consideration

The aggregate Acquisition Consideration payable for the sale and purchase of the Offered Shares shall be US$35.7 million (equivalent to approximately HK$278.46 million). The Acquisition Consideration is subject to adjustment in accordance with the terms of the Acquisition Agreement and will be settled in cash in the following manner:

(1) an aggregate of US$17.85 million (equivalent to approximately HK$139.23 million), subject to adjustments set out in the section headed "Adjustment to the Acquisition Consideration" in this Letter from the Board, minus the Estimated Indebtedness and the Estimated Transaction Expenses ("**Closing Payment**"), to be paid to the Acquisition Sellers upon Acquisition Completion on a pro rata basis;

(2) an aggregate of US$10.71 million (equivalent to approximately HK$83.538 million), subject to adjustments set out in the section headed "Adjustment to the First Deferred Payment and the Second Deferred Payment" in this Letter from the Board ("**First Deferred Payment**"), to be paid to the Acquisition Sellers within 5 Business Days after the final determination of the First Deferred Payment for First Period on a pro rata basis; and

(3) an aggregate of US$7.14 million (equivalent to approximately HK$55.692 million), subject to adjustments set out in the section headed "Adjustment to the First Deferred Payment and the Second Deferred Payment" in this Letter from the Board ("**Second Deferred Payment**"), to be paid to the Acquisition Sellers within 5 Business Days after the final determination of the Second Deferred Payment for the Second Period on a pro rata basis.

The Acquisition Consideration was determined after arms' length negotiations between Anlev (US) and the Acquisition Sellers with reference to the estimated net worth of US$70 million of 100% the Target Company having considered (i) the net asset value of the Target Company as at 31 December 2019, (ii) the order book of the Target Company as at 31 December 2019 and (iii) the brand name and goodwill of the Target Company.

Adjustment to the Acquisition Consideration

Completion Adjustment

At least three Business Days before the Acquisition Completion, the Acquisition Sellers shall prepare and deliver to Anlev (US) a written statement setting forth their good faith estimate of (i) the working capital of the Target Company calculated as of the Cut-off Time (without giving effect to the transactions contemplated under the Acquisition Agreement) ("**Estimated Closing Working Capital**"), (ii) the indebtedness of the Target Company as of the Cut-off Time ("**Estimated Indebtedness**"), and (iii) the estimated transaction expenses of the Target Company incurred in connection with, among others, the Acquisition Agreement and the Shareholders' Agreement ("**Estimated Transaction Expenses**"), all of which will be prepared and calculated in accordance with GAAP.

The Closing Payment shall be adjusted by an amount (if any) equal to the Estimated Closing Working Capital minus US$12,607,312 ("**Closing Adjustment**"), provided that if the absolute value of the Closing Adjustment is less than US$250,000, the Closing Adjustment shall be deemed to be US$0. If the Closing Adjustment is a positive number, the Closing Payment shall be increased by the amount of the Closing Adjustment. If the Closing Adjustment is a negative number, the Closing Payment shall be reduced by the amount of the Closing Adjustment. At the Acquisition Completion, the Closing Adjustment to the Closing Payment was US$0.

Post-Completion Adjustment

Within 90 days after the Acquisition Completion, Anlev (US) shall prepare and deliver to the Acquisition Sellers a written statement ("**Closing Statement**") setting forth in reasonable detail its calculation of (i) the working capital of the Target Company calculated as of the Cut-off Time (without giving effect to the transactions contemplated under the Acquisition Agreement) ("**Final Closing Working Capital**"), (ii) the indebtedness of the Target Company as of the Cut-off Time ("**Final Indebtedness**"), and (iii) the transaction expenses of the Target Company incurred in connection with, among others, the Acquisition Agreement and the Shareholders' Agreement ("**Final Transaction Expenses**"), all of which will be prepared and calculated in accordance with GAAP.

The Acquisition Consideration shall be adjusted by an amount (if any) equals to the (i) the Final Closing Working Capital minus the Estimated Closing Working Capital, plus (ii) the Estimated Indebtedness less the Final Indebtedness, plus (iii) the Estimated Transaction Expenses less the Final Transaction Expenses ("**Post-Closing Adjustment**"). If the Post-Closing Adjustment is a positive number, Anlev (US) shall pay to the Acquisition Sellers, on a pro rata basis, an amount equal to the Post-Closing Adjustment. If the Post-Closing Adjustment is a negative number, each Acquisition Seller severally shall pay to Anlev (US) an amount equal to such Acquisition Seller's pro rata portion of the Post-Closing Adjustment. Any payment of the Post-Closing Adjustment shall be due within 5 Business Days of the final determination of the Closing Statement. Pursuant to the Closing Statement delivered to the Acquisition Sellers by Anlev (US), there was no post-completion adjustment to the Acquisition Consideration.

Adjustment to the First Deferred Payment and the Second Deferred Payment

In the event the Actual Performance for a Period is within 15% (above or below) of the Target Performance for such Period, Anlev (US) will pay the Acquisition Sellers an aggregate amount equal to the applicable Deferred Payment for such Period.

To the extent the Actual Performance for a Period is more than 15% above or below the Target Performance for such Period, the Deferred Payment for such Period will be adjusted in line with the following chart, whereby the "*Performance*" column represents the Actual Performance as a percentage of the Target Performance, and the "*Payment*" column represents the total adjusted Deferred Payment that would be paid (as applicable) as a percentage of the applicable Deferred Payment:

Performance	**Payment**
145% or higher	140%
Greater than 140% and equal to or less than 145%	135%
Greater than 135% and equal to or less than 140%	130%
Greater than 130% and equal to or less than 135%	125%
Greater than 125% and equal to or less than 130%	120%
Greater than 120% and equal to or less than 125%	115%
Greater than 115% and equal to or less than 120%	110%
Equal to or less than 115% but greater than or equal to 85%	100%
Less than 85% but equal to or greater than 80%	80%
Less than 80% but equal to or greater than 75%	70%
Less than 75% but equal to or greater than 70%	60%
Less than 70% but equal to or greater than 65%	50%
Less than 65% but equal to or greater than 60%	40%
Less than 60% but equal to or greater than 55%	30%
Less than 55% but equal to or greater than 50%	20%
Less than 50%	0%

With respect to the calculation of the Actual Performance in the Second Period, (i) to the extent the Actual Performance in the First Period exceeded 145% of the Target Performance for the First Period, such excess performance beyond 145% will be added to the Actual Performance in the Second Period, and (ii) to the extent the Actual Performance in the First Period was 85% or less of the Target Performance for the First Period, any actual excess over 100% in the Actual Performance in the Second Period will be reduced and applied to the First Period, and the Deferred Payment for the Second Period will be increased by any amount that the First Deferred Payment would have been increased with such revised numbers.

Notwithstanding the above, (i) under no circumstances will the actual adjusted Deferred Payment for a Period be greater than 140% of the targeted Deferred Payment, regardless of the Actual Performance, and (ii) to the extent the Actual Performance for a Period is less than 50% of the applicable Target Performance, no Deferred Payment will be made for such Period.

Any payments made pursuant to the adjustment of Deferred Payment, to the extent in excess of or less than the respective baseline Deferred Payment amounts, shall be treated as adjustments to the Acquisition Consideration.

Acquisition Completion

The Acquisition Completion took place immediately upon signing of the Acquisition Agreement on the date of the Acquisition Agreement (Eastern Time).

Upon the Acquisition Completion, each of the Acquisition Sellers has executed his/her respective Employment Agreement with the Target Company for their provision of administrative, financial and other executive and managerial services to the Target Company in accordance with the terms and conditions thereof for a term of five years in the case of Mr. Gregorio and Michael Staub, and three years in the case of each other Acquisition Seller, each commencing from the date of the Acquisition Agreement, and shall thereafter automatically renew for one year terms unless either party gives the other party 30 days' notice of its election not to renew, or until his/her employment is terminated in accordance with the terms and conditions thereof.

THE DISPOSAL

On 10 August 2020 (Eastern Time and after trading hours of the Stock Exchange), Anlev (US), an indirect wholly-owned subsidiary of the Company, entered into the Disposal Agreement with Mr. Gregorio in relation to the Disposal, pursuant to which Anlev (US) has agreed to sell, and Mr. Gregorio has agreed to purchase, the Sale Shares for the Disposal Consideration of US$1.4 million (equivalent to approximately HK$10.92 million).

The Disposal Agreement

The major terms of the Disposal Agreement are as follows:

Date: 10 August 2020 (Eastern Time and after trading hours of the Stock Exchange)

Parties:

Seller: Anlev (US) LLC, an indirect wholly-owned subsidiary of the Company

Buyer: Mark Gregorio, an individual.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Gregorio was a USA citizen who was a shareholder holding 29.4% equity interest in the Target Company as at the date of the Disposal Agreement. Accordingly, Mr. Gregorio was a substantial shareholder of the Target Company and was a connected person of the Company at the subsidiary level under the Listing Rules as at the date of the Disposal Agreement.

Subject of the Disposal

Pursuant to the Disposal Agreement, Anlev (US) has agreed to sell, and Mr. Gregorio has agreed to purchase, the Sale Shares, representing 2% of the equity interests in the Target Company.

Disposal Consideration

The Disposal Consideration payable for the Sale Shares shall be US$1.4 million (equivalent to approximately HK$10.92 million). The Disposal Consideration will be paid by wire of immediately available funds to an account directed by Anlev (US) within five (5) days of the Disposal Agreement.

The Disposal Consideration was determined after arms' length negotiations between Mr. Gregorio and Anlev (US) with reference to, among others, the net asset value of the Target Company as at 31 December 2019 and the business prospects of the Target Company.

Disposal Completion

The Disposal Completion took place immediately upon signing of the Disposal Agreement at 10:00 a.m. on the date of the Disposal Agreement (Eastern Time).

Upon the Disposal Completion, Anlev (US) disposed of its 2% equity interests in the Target Company and the Target Company ceased to be a subsidiary of the Company.

SHAREHOLDERS' AGREEMENT

On 31 March 2020 (Eastern Time and after trading hours of the Stock Exchange), the Shareholders' Agreement was entered into among the Acquisition Sellers, Anlev (US) and the Target Company. On 10 August 2020 (Eastern Time and after trading hours of the Stock Exchange), each of the Target Company, Anlev (US), Mr. Gregorio and the Other Existing Shareholders executed the Amendment Document to amend and supplement certain terms of the Shareholders' Agreement. The Shareholders' Agreement (as amended and supplemented by the Amendment Document) contains various rights of shareholders in the Target Company, including but not limited to the following:

Board composition

Each of (i) Anlev (US) and (ii) such Acquisition Sellers holding in aggregate at least 80% of all the shares owned by the Acquisition Sellers in the Target Company can designate two individuals to be the directors of the Target Company.

Right of first refusal

If Anlev (US) (or its permitted transferee) (collectively, the "**Selling Shareholder**") receives a bona fide offer from any third party purchaser that the Selling Shareholder desires to accept to transfer all or any portion of its shares in the Target Company, the other shareholder(s) of the Target Company shall have a right of first refusal to buy such shares.

In addition, prior to Mr. Gregorio completing transfer of any of his shares in the Target Company, Mr. Gregorio shall first offer to Anlev (US) an amount of shares equal to the excess of 1 and 1/3rds of a share of common stock of the Target Company (or such other amount of shares in the Target Company as then represents 2% of the outstanding equity of the Target Company).

Tag-along right

If the Selling Shareholder proposes to transfer any of its shares in the Target Company to any person, each other shareholder(s) of the Target Company shall be permitted to participate in such sale.

Drag-along right

If the Selling Shareholder proposes to consummate, in one transaction or a series of related transactions, a Change of Control, the Selling Shareholder shall have the right to require that each other shareholder of the Target Company to participate in such sale on substantially the same terms and conditions as the Selling Shareholder.

Acquisition Sellers' Put Right and Anlev (US)'s Call Right

Put Right

At any time on or after the date that is seven years from the date of the Shareholders' Agreement (i.e. on or after 31 March 2027 (Eastern Time)), the Acquisition Sellers shall have the right (the "**Put Right**") to cause Anlev (US) to purchase all, but not less than all, of the shares in the Target Company held by all the Acquisition Sellers at a price which shall be the fair value of such shares as of the date of the exercise of the Put Right or Call Right (as defined below), as applicable (the "**Purchase Price**").

Call Right

At any time on or after the date that is two years from the date of the Shareholders' Agreement (i.e. on or after 31 March 2022 (Eastern Time)), Anlev (US) shall have the right (the "**Call Right**") to cause each of the Acquisition Seller to sell all, but not less than all, of the shares in the Target Company held by the Acquisition Sellers to Anlev (US) at the Purchase Price.

Notwithstanding the above, upon the Acquisition Sellers' exercise of the Put Right, to the extent that Anlev (US) is unable to purchase the shares in the Target Company from the Acquisition Sellers, Anlev (US) shall have the right to refuse such purchase, and to the extent Anlev (US) exercises such right, Anlev (US) must promptly use its commercially reasonable efforts to permit or cause either the Target Company or the shares in the Target Company held by the Acquisition Sellers to be sold to a third party purchaser. To the extent the Target Company or the shares in the Target Company held by the Acquisition Sellers for any reason are not sold within twelve months of the Acquisition Sellers' exercise of the Put Right, the Acquisition Sellers shall have the right to re-exercise the Put Right as if it had not previously been exercised. In the event that the Acquisition Seller re-exercises the Put Right pursuant to the Shareholders' Agreement, Anlev (US) would not be obliged to purchase the share in the Target Company held by the Acquisition Sellers. To the extent that Anlev (US) is unable to purchase the shares in the Target Company at the time of such re-exercise of Put Right, Anlev (US) shall again have the right to refuse such purchase and permit or cause either the Target Company or the shares in the Target Company held by the Acquisition Sellers to be sold to a third party purchaser in accordance with the mechanism mentioned above.

Target Company's Book Value Option and Leaver Options

Book Value Option

If, before the Permitted Termination Date, the Target Company terminates employment of an Acquisition Seller for cause, or an Acquisition Seller terminates his/her employment other than for good reason or without the Target Company's consent, the Target Company shall have an option ("**Book Value Option**"), exercisable by notice to such Acquisition Seller within one year following the date of termination, to purchase from such Acquisition Seller all of his or her shares in the Target Company at their book value, as determined from the Target Company's audited balance sheet as of the year ended most recently before such date of termination.

Leaver Options

If an Acquisition Seller's employment is terminated on or after the Permitted Termination Date or at any time by the Acquisition Seller's death or permanent disability or incapacity (such Acquisition Seller, the "**Leaver**"), the Target Company and the other Acquisition Sellers shall have options ("**Leaver Options**") to purchase any or all of the Leaver's shares in the Target Company ("**Leaver's Shares**"), exercisable within one year after the date of termination ("**Option Period**") at their fair value. The Target Company shall exercise its option by notice given at least 60 days before the end of the Option Period, to the Leaver and other Acquisition Sellers, of the number of shares that the Target Company elects to purchase or shall notify Leaver and the other Acquisition Sellers of the Target Company's determination that it will not exercise its option with respect to any of Leaver's Shares within five days after such determination, but not later than 60 days before the end of the Option Period. The other

Acquisition Sellers shall have the option to purchase all or any of Leaver's Shares not elected to be purchased by the Target Company, pro rata with respect to their ownership of shares in the Target Company with respect to themselves or in such other amounts as they shall agree.

INFORMATION OF THE GROUP AND ANLEV (US)

The Group is a leading electrical and mechanical ("**E&M**") engineering service provider in Hong Kong which provides multi-disciplinary and comprehensive E&M engineering and technology services, including (i) building services, (ii) environmental engineering, (iii) information, communications and building technologies, and (iv) lifts and escalators.

Anlev (US) is a Delaware limited liability company. It is an indirect wholly-owned subsidiary of the Company and is principally engaged in investment holding.

INFORMATION OF MR. GREGORIO AND THE OTHER EXISTING SHAREHOLDERS

As at the date of the Acquisition Agreement, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Acquisition Sellers (i.e. Mr. Gregorio and the Other Existing Shareholders collectively) was an individual and an Independent Third Party.

As at the date of the Disposal Agreement, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Gregorio was a USA citizen who was a shareholder holding 29.4% equity interest in the Target Company.

INFORMATION OF THE TARGET COMPANY

The Target Company is a corporation incorporated in New York which is principally engaged in the business of providing new construction, modernization, repair and maintenance services in the vertical transportation sector for both residential and commercial real estate customers.

Based on the accountants' report of the Target Company as set out in Appendix II to this Circular, the net asset value of the Target Company as at 31 December 2019 was approximately HK$119 million. Some financial data of the Target Company as extracted from the accountants' report of the Target Company is set out below:

	For the year ended 31 December	
	2018	**2019**
	(audited)	(audited)
	HK$' million	*HK$' million*
Profit before taxation	30	**84**
Profit after taxation	27	**75**

Upon the Acquisition Completion, the Target Company became an indirect non-wholly owned subsidiary of the Company.

As at 30 June 2020, the audited net book value of the Sale Shares was approximately HK$2.2 million. The Disposal Consideration represented an excess of approximately HK$8.7 million over the audited net book value of the Sale Shares as at 30 June 2020. The original acquisition cost of the Sale Shares paid by Anlev (US) was approximately US$1.4 million (equivalent to approximately HK$10.9 million). Upon the Disposal Completion, the Target Company is owned by the Group as to 49% and the Group's present intention is to retain its 49% equity interests in the Target Company. Accordingly, the Target Company ceased to be a subsidiary of the Company and the financial results of the Target Company would no longer be consolidated with the results of the Group upon the Disposal Completion.

FINANCIAL EFFECTS OF THE DISPOSAL

The Group acquired 51% of the Target Company and committed to pay US$35.7 million (equivalent to approximately HK$278.46 million) (based on the estimated net worth of US$70 million of 100% the Target Company with reference to (i) the net asset value of the Target Company as at 31 December 2019, (ii) the order book of the Target Company as at 31 December 2019 and (iii) the brand name and goodwill of the Target Company) over 3 stage payments, in March 2020, 3rd quarter of 2021 and 3rd quarter of 2022 in accordance with the Acquisition Agreement.

The Group later disposed of 2% of the Target Company for US$1.4 million (equivalent to approximately HK$10.92 million) which is at the same net worth of the Target Company of US$70 million.

The Disposal was completed in August 2020 and Anlev (US) received the full amount of the Disposal Consideration in August 2020. Due to the fact that the payments of the Acquisition Consideration are over 3 stages (March 2020, 3rd quarter of 2021 and 3rd quarter of 2022) and the receipt of the Disposal Consideration was in August 2020, the timing of the 3 stage payments under the Acquisition and the receipt of the Disposal Consideration in full in one receipt which gave rise to a valuation difference in gain for HK$1 million.

Shareholders should note that the actual amount of gain/loss on the Disposal to be recorded by the Company will be subject to review by the auditors of the Company.

The Group currently intends to use the net proceeds from the Disposal for the general working capital of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE DISPOSAL

The Acquisition

Lifts and escalators is a profitable with a sustainable recurring revenue business sector and is dominated by some very significant players globally. The Directors consider that there are still enough market size available for the Group's lifts and escalators business to grow.

The Group's successful lifts and escalators business model is to be flexible and have an innovative approach to products and most importantly to satisfy customer demands, which sometimes goes beyond standard products from a catalogue. This model can be further complemented by providing the customers with a long-term service contract together with the products.

The Group's vertical supply chain currently has a manufacturing facility in Nanjing, PRC and a long and successful presence in installations, modernisations and services of lifts and escalators in Hong Kong.

The Group is gradually expanding its lifts and escalators business in the PRC, Korea, Australia, Mexico, etc. and is executing its vision to provide products and services on a global basis.

An opportunity has arisen after successful partnership with one of our distributors in USA to form a closer relationship through the Acquisition. The growth from an existing distributor partnership to an equity partnership provide the opportunity for both the Acquisition Sellers and Anlev (US) to understand each other, and ensure the alignment of the strategic goals and culture fits. The Target Company has been operating in New York City since 1989 and its primary activities are modernisation, installation, repair and maintenance for elevators and escalators in residential and commercial properties in New York metropolitan area. The Directors consider that the Acquisition will allow the Group to gain local presence, knowledge and more than 30 years' experience in the USA lifts and escalators market.

Based on information available to the Company as at the date of the Acquisition Agreement, the revenue of the Target Company has grown at the compound annual growth rate of 17% from 2014 to 2019, from US$54 million (equivalent to approximately HK$421 million) in 2014 to US$118.7 million (equivalent to approximately HK$930.0 million) in 2019. The Target Company's profit before tax has also grown from less than US$0.5 million (equivalent to approximately HK$3.9 million) in 2014 to over US$10 million (equivalent to approximately HK$78 million) in 2019.

In light of the satisfactory financial performance of the Target Company and its extensive experience in the USA lifts and escalators market, the Company believes that the Acquisition will be a very successful first step for the Group to enter USA market and beyond.

Taking into consideration of the aforesaid, the Directors consider that the terms and conditions of the Acquisition Agreement are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and the Shareholders as a whole.

The Disposal

Subsequent to the Acquisition in March 2020, with the advice from its USA legal counsel, the Company has reassessed the regulatory, operating and business environment in the USA and has determined with the board of the Target Company that it is in the best interest for Target Company to have Target Company's local management increase their equity stakes in the Target Company due to latest changing Sino-USA tension. Accordingly, the Directors consider that the Disposal would serve the best commercial interests as a whole of the Company, its Shareholders and investors, the Target Company and its shareholders, and other stakeholders and business partners of the Target Company including its customers and suppliers, after taking into account the business and customer base of the Target Company.

The terms of the Disposal Agreement were determined after arm's length negotiations between the Company and Mr. Gregorio and having considered the reasons for and benefits of the Disposal as mentioned above. The Directors (including the independent non-executive Directors) are of the view that the terms of the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Acquisition

As one or more of the applicable percentage ratios (as defined in the Listing Rules) as calculated under Rule 14.06 of the Listing Rules in respect of the Acquisition was more than 25% but all of the percentage ratios were less than 100%, the Acquisition constituted a major transaction on the part of the Company under Chapter 14 of the Listing Rules. The Acquisition would be subject to the reporting, announcement and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

As the exercise of each of the Call Right, the Book Value Option and the Leaver Options is at the discretion of the Company, according to Rule 14.75(1) of the Listing Rules, on the grant of each of the Call Right, the Book Value Option and the Leaver Options only the premium (which is nil) would be taken into consideration for calculating the percentage ratios.

The exercise of the Put Right is not at the discretion of the Company. According to Rule 14.74 of the Listing Rules, on the grant of the Put Right, the transaction will be classified as if the Put Right has been exercised. As it is not possible to demonstrate the highest possible monetary value of the Put Right at the time of its grant, the grant of the Put Right would be treated as at least a major transaction pursuant to Rule 14.76(1) of the Listing Rules. Therefore, the grant of the Put Right would be subject to the reporting, announcement and Shareholders' approval requirement under Chapter 14 of the Listing Rules. The Company will comply with the relevant Listing Rules upon the exercise of the Acquisition Sellers' Put Right.

As at the date of the Acquisition Agreement and the Shareholders' Agreement, each of the Acquisition Sellers was an Independent Third Party. Accordingly, the Acquisition and the grant of the Put Right did not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Disposal

As at the date of the Disposal Agreement, the Target Company was a 51% owned subsidiary of the Company and was owned by Mr. Gregorio as to 29.4%. Therefore, Mr. Gregorio was a substantial shareholder of the Target Company and was a connected person of the Company at the subsidiary level under the Listing Rules. The Disposal thus constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. Since the connected transaction between Mr. Gregorio and Anlev (US) is on normal commercial terms, the connected transaction was exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

Further, as one or more of the applicable percentage ratios (as defined in the Listing Rules) as calculated under Rule 14.06 of the Listing Rules in respect of the Disposal was more than 25% but all of the percentage ratios were less than 75%, the Disposal constituted a major transaction on the part of the Company under Chapter 14 of the Listing Rules. The Disposal would be subject to the reporting, announcement and the Shareholders' approval requirement under Chapter 14 of the Listing Rules.

None of the Directors had material interests in the Disposal and hence no Director is required to abstain from voting on the Board resolutions approving the Disposal Agreement and the transactions contemplated thereunder. The Company's independent non-executive directors have confirmed that the terms of the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole.

WRITTEN SHAREHOLDER'S APPROVAL

So far as the Company is aware, having made all reasonable enquiries, no Shareholder has a material interest in, and would be required to abstain from voting on the resolutions to approve, the Acquisition, the grant of the Put Right and the Disposal, respectively, if the Company were to convene a general meeting to approve the same.

The Company has received written Shareholder's approval in respect of the Acquisition and the grant of the Put Right from Arling Investment Limited, which held 888,650,000 issued shares of the Company (representing approximately 63.48% of the total issued shares of the

Company) as at the date of the Acquisition Agreement, in accordance with Rule 14.44 of the Listing Rules. Accordingly, no Shareholders' meeting will be convened by the Company to approve the Acquisition and the grant of the Put Right.

The Company has also received written Shareholder's approval in respect of the Disposal from Arling Investment Limited, which held 888,650,000 issued shares of the Company (representing approximately 63.48% of the total issued shares of the Company) as at the date of the Disposal Agreement, in accordance with Rule 14.44 of the Listing Rules. Accordingly, no Shareholders' meeting will be convened by the Company to approve the Disposal.

RECOMMENDATION

Having taken into account the reasons for and the benefits of the Acquisition, the grant of the Put Right and the Disposal, respectively, as set out in this Letter from the Board above, the Board considers that the terms and conditions of (i) the Acquisition Agreement and the Shareholders' Agreement and (ii) the Disposal Agreement, respectively, are on normal commercial terms and are fair and reasonable and that the Acquisition, the grant of the Put Right and the Disposal are in the interests of the Company and the Shareholders as a whole.

Accordingly, if a general meeting were to be convened, the Board would recommend the Shareholders to vote in favour of the ordinary resolution to approve (i) the Acquisition Agreement and the Shareholders' Agreement; and (ii) the Disposal Agreement and the respective transactions contemplated thereunder at such general meeting.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Circular.

By order of the Board
Analogue Holdings Limited
Dr. Poon Lok To Otto
Chairman

1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

Consolidated financial information of the Group (being the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in equity) for each of the three financial years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, together with the relevant notes thereto, are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.atal.com):

(i) the audited financial information of the Group for the financial years ended 31 December 2017 and 2018 are disclosed in the Prospectus on pages I-1 to I-119 which can be accessed via the link at https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0628/ltn20190628033.pdf;

(ii) the audited financial information of the Group for the financial year ended 31 December 2019 is disclosed in the annual report of the Company for the year ended 31 December 2019 (pages 81 to 178) which can be accessed via the link at https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0514/2020051400457.pdf; and

(iii) the unaudited financial information of the Group for the six months ended 30 June 2020 is disclosed in the interim report of the Company for the six months ended 30 June 2020 (pages 16 to 53) which can be accessed via the link at https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0914/2020091400487.pdf.

2. STATEMENT OF INDEBTEDNESS

The table below set out the indebtedness of the Group and the Enlarged Group:

	As at 30 September 2020		
	The Group	**The Target Company**	**The Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*
Interest bearing			
Secured bank borrowings	–	1,358	1,358
Amount due to a former shareholder of a subsidiary	–	4,535	4,535
Other loan	–	76,816	76,816
	–	82,709	82,709
Non-interest bearing			
Amounts due to partners of joint operations	2,625	–	2,625
Lease liabilities	31,502	32,245	63,747
	34,127	32,245	66,372
Total	34,127	114,954	149,081

The Group

Amounts due to partners of joint operations

Amounts due to partners of joint operations were non-trade, non-interest bearing and repayable on demand, unsecured and unguaranteed.

Lease liabilities

The lease liabilities represent payment for right of using underlying assets and secured with the rental deposits of the Group and unguaranteed.

Pledge of assets

As at 30 September 2020, we had the following assets pledged for banking facilities of the Group:

- Properties
- Investment properties
- Bank deposits

The table below sets forth the guarantees provided by the Company to banks with respect to the banking facilities granted to certain wholly owned subsidiaries of the Group as at 30 September 2020:

	HK$'000
Guarantees given to subsidiaries	
Guarantees given to banks, in respect of banking facilities granted to subsidiaries	
– amount guaranteed	1,468,940
– amount utilised	679,130

As at 30 September 2020, there were outstanding performance bonds of approximately HK$467.0 million in relation to our normal course of business.

As at 30 September 2020, save as disclosed above, and apart from intra-group liabilities, the Group did not have any loan capital issued which is outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, leases liabilities or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

The Target Company

Bank borrowings

The bank borrowings carried interest at 5.0% per annum, were secured by the equipment of the Target Company and guaranteed by certain shareholders of the Target Company and repayable in monthly instalments through December 2021.

Amount due to a former shareholder of a subsidiary

The amount due to a former shareholder of a subsidiary was non-trade, unsecured and unguaranteed and carried interest at 2.71% per annum. The amount is repayable in 120 equal monthly instalments commencing on 1 February 2017.

Other loan

Other loan represented an unsecured and unguaranteed government loan obtained from USA government under the paycheck protection program. The loan carried interest at 1% per annum and has a maturity of two years from the date of the loan advanced.

Lease liabilities

The lease liabilities represent payment for right of using underlying assets, of which approximately HK$29.1 million is secured with the rental deposits of the Target Company and unguaranteed, and the remaining of approximately HK$3.1 million is unsecured and unguaranteed.

The table below sets forth the guarantees provided by certain shareholders of the Target Company to a bank with respect to the banking facilities granted to the Target Company as at 30 September 2020:

	HK$'000
Guarantees given to the Target Company	
Guarantees given to a bank, in respect of banking facilities granted to the Target Company	
– amount guaranteed	93,600
– amount utilised	–

As at 30 September 2020, save as disclosed above, and apart from intra-group liabilities, the Target Company did not have any loan capital issued which is outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, leases liabilities or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

3. WORKING CAPITAL

The Enlarged Group

The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account the completion of the Acquisition and exercise of the Put Right on 31 March 2020, cash flows generated from the operating activities of the Enlarged Group, the financial resources available to the Enlarged Group, including internally generated funds and the existing credit facilities, working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of this Circular.

The Group

The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account the completion of the Acquisition and grant of the Put Right on 31 March 2020, the completion of the Disposal on 10 August 2020, cash flows generated from the operating activities of the Group, the financial resources available to the Group, including internally generated funds, working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this Circular.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 December 2019, being the date to which the latest published audited accounts of the Group were made up, up to and including the Latest Practicable Date, there were no material changes in the financial or trading position of the Group.

5. EFFECT OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Upon the Acquisition Completion, the Group would own 51% of the equity interests in the Target Company. Henceforth, the Target Company would be a non-wholly owned subsidiary of the Company, of which trading results and its assets and liabilities would be consolidated into the Group.

The income and expenses of the Target Company from the date of Acquisition Completion to 30 June 2020 are included in the unaudited condensed consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2020. The assets and liabilities of the Target Company as at 30 June 2020 are included in the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020.

According to the unaudited condensed consolidated financial information of the Group as contained in the interim report of the Company for the six months ended 30 June 2020, the unaudited total assets and total liabilities of the Group as at 30 June 2020 were approximately HK$4,056,515,000 and HK$2,163,460,000, respectively. The Group records unaudited profit attributable to owners of the Company of approximately HK$106,878,000 for the six months ended 30 June 2020.

For details of the financial performance of the Target Company, please refer to the accountants' report of the Target Company as set out in Appendix II to this Circular and the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this Circular. The unaudited pro forma financial information was prepared based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as if the Acquisition had been completed and the Put Right had been exercised on 30 June 2020.

Assets and liabilities

As at 30 June 2020, the unaudited total assets of the Group were approximately HK$4,056,515,000. According to the unaudited pro forma financial information, the unaudited pro forma consolidated total assets of the Enlarged Group would have decreased to approximately HK$3,854,744,000.

As at 30 June 2020, the unaudited total liabilities of the Group were approximately HK$2,163,460,000. According to the unaudited pro forma financial information, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have remained the same.

Earnings

For the six months ended 30 June 2020, the Group records unaudited profit attributable to owners of the Company of approximately HK$106,878,000 for the six months ended 30 June 2020. According to the financial information of the Target Company as set out in Appendix II to this Circular, the audited net profit of the Target Company for the six months ended 30 June 2020 was approximately HK$20,694,000. Based on the track record of the Target Company, it is expected that the Target Company could make a positive contribution to the profit of the Group, if the Acquisition had been completed and the Put Right had been exercised on 30 June 2020.

6. EFFECT OF THE DISPOSAL ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Upon completion of the disposal of the Sale Shares (representing 2% of the total equity interests in the Target Company), the Group had reduced its interest in the Target Company from 51% to 49%. Henceforth, the Target Company would be an associate of the Group, of which trading results and its assets and liabilities will be incorporated in the Group using the equity method of accounting.

For details of the financial performance of the Target Company, please refer to the accountants' report of the Target Company as set out in Appendix II to this Circular.

Assets and liabilities

Upon the Disposal Completion, the Target Company ceased to be a subsidiary of the Group, and therefore, the Group will cease to consolidate the financial results, assets and liabilities of the Target Company into the Group. The Target Company would be an associate of the Group, of which trading results and its assets and liabilities will be incorporated in the Group using the equity method of accounting.

Accordingly, apart from the increase in total assets by the amount of the Disposal Consideration in cash and the initial recognition of investment in an associate in accordance with HKAS 28 *Investments in Associates*, the total assets and liabilities of the Group will be reduced by the assets and liabilities attributable to the Target Company.

Earnings

Upon the Disposal Completion, the Target Company became an associate of the Group and the financial results of the Target Company would be accounted for as an associate of the Group into the financial statements of the Group. For further details of the earnings of the Target Company, please refer to the accountants' report of the Target Company as set out in Appendix II to this Circular.

7. BUSINESS AND FINANCIAL PROSPECTS OF THE ENLARGED GROUP

According to the Group's annual report for the year ended 31 December 2019, the Company has been looking out for opportunities to expand the Group's various business segments, and may therefore enter into value-enhancing transactions (such as acquisition and formation of joint venture) in the future using internal resources of the Group and/or external financing if necessary.

During the six months ended 30 June 2020, the Enlarged Group submitted a total of 913 tenders or quotations each worth over HK$1 million and was awarded 155 tenders and quotations of over HK$1 million each, totalling approximately HK$1.90 billion. As at 30 June 2020, the overall value of outstanding contracts in hand was approximately HK$10.77 billion, approximately HK$1.90 billion or 21.4% more than that amount at 30 June 2019.

Taking into consideration of (i) the growth of the lifts and escalators market in the USA; (ii) the Target Company's local presence, knowledge and extensive experience in the USA lifts and escalators market and (iii) its satisfactory financial performance, details of which are set out in the section headed "Reasons for and Benefits of the Acquisition and the Disposal" in the Letter from the Board in this Circular, the Board is optimistic about the future development of the lifts and escalator industry in which the Target Company operates. Upon the Acquisition Completion, the Enlarged Group will enter into the USA lifts and escalators market, which will provide opportunities to diversify the revenue stream and improve the profitability of the Enlarged Group.

In the long run, the Enlarged Group will continue to evaluate suitable opportunities to expand the Group's various business segments with an aim to provide additional stable income streams.

8. BUSINESS AND FINANCIAL PROSPECTS OF THE GROUP AFTER THE DISPOSAL

As the disposal of the Sale Shares (representing 2% of the equity interests in the Target Company) has no material impact on the business and financial prospects of the Group, the prospects of the Enlarged Group as set out in the section headed "7. Business and Financial Prospects of the Enlarged Group" in this Appendix also apply to the prospects of the Group after the Disposal.

The following is the text of a report set out on pages II-1 to II-51, received from the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF TRANSEL ELEVATOR & ELECTRIC INC. TO THE DIRECTORS OF ANALOGUE HOLDINGS LIMITED

Introduction

We report on the historical financial information of Transel Elevator & Electric Inc. (the "Target Company") set out on pages II-4 to II-51, which comprises the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-51 forms an integral part of this report, which has been prepared for inclusion in the circular of Analogue Holdings Limited (the "Company") dated 30 November 2020 (the "Circular") in connection with the acquisition of 51% of equity interests in the Target Company.

Directors' Responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materially consistently with those of the Company.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2017, 2018 and 2019 and 30 June 2020, and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our 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 HKICPA. A review 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. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about the dividends declared and paid by the Target Company in respect of the Relevant Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 November 2020

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2017 HK$'000	2018 HK$'000	2019 HK$'000	Six months ended 30 June 2019 HK$'000 (Unaudited)	2020 HK$'000
Revenue	*6*	694,758	745,505	930,006	425,794	445,942
Cost of services		(589,618)	(617,705)	(710,461)	(332,149)	(345,990)
Gross profit		105,140	127,800	219,545	93,645	99,952
Other income	*7*	5,582	5,614	6,575	2,834	3,824
Impairment losses in respect of trade receivables and contract assets, net of reversal	*17, 32*	(461)	(2,153)	(4,164)	(1,602)	(5,453)
Administrative expenses		(90,789)	(99,439)	(133,707)	(61,659)	(70,827)
Finance costs	*8*	(1,818)	(2,007)	(4,080)	(1,983)	(1,588)
Profit before tax		17,654	29,815	84,169	31,235	25,908
Income tax expense	*10*	(1,412)	(2,461)	(8,830)	(3,304)	(5,214)
Profit for the year/period	*9*	16,242	27,354	75,339	27,931	20,694
Other comprehensive income (expense)						
Item that will not be reclassified to profit or loss:						
Exchange differences on translation from functional currency to presentation currency		426	(357)	(720)	(241)	199
Total comprehensive income for the year/period		16,668	26,997	74,619	27,690	20,893

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2017 HK$'000	As at 31 December 2018 HK$'000	As at 31 December 2019 HK$'000	As at 30 June 2020 HK$'000
Non-current assets					
Property and equipment	13	5,449	6,670	6,025	5,275
Right-of-use assets	14	–	–	31,425	28,027
Rental deposits		474	475	472	473
Restricted cash	18	2,141	1,137	1,130	1,132
Deferred tax assets	26	634	599	–	1,409
		8,698	8,881	39,052	36,316
Current assets					
Inventories	15	1,612	1,769	2,045	2,891
Contract assets	16	64,294	84,381	113,385	111,664
Trade and other receivables	17	154,949	218,795	238,151	228,343
Bank balances and cash	18	21,902	23,404	29,371	104,066
		242,757	328,349	382,952	446,964
Current liabilities					
Trade payables	19	77,333	84,023	103,086	80,738
Other payables and accrued expenses	20	30,086	30,211	43,608	51,099
Contract liabilities	21	45,948	126,931	109,777	110,892
Amount due to a former shareholder	22	619	637	651	661
Amounts due to shareholders	22	1,792	1,797	1,786	8,769
Tax payables		–	–	–	3,995
Bank borrowings	23	30,291	26,419	1,037	1,066
Lease liabilities	25	–	–	6,496	6,606
		186,069	270,018	266,441	263,826
Net current assets		56,688	58,331	116,511	183,138
Total assets less current liabilities		65,386	67,212	155,563	219,454
Non-current liabilities					
Other payables and accrued expenses	20	4,163	4,572	–	–
Bank borrowings	23	1,688	–	1,091	553
Other loan	24	–	–	–	76,816
Amount due to a former shareholder	22	5,667	5,044	4,363	4,037
Lease liabilities	25	–	–	30,562	27,255
Deferred tax liabilities	26	–	–	161	–
		11,518	9,616	36,177	108,661
Net assets		53,868	57,596	119,386	110,793
Capital and reserves					
Share capital	27	17	17	17	17
Reserves		53,851	57,579	119,369	110,776
Total equity		53,868	57,596	119,386	110,793

STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$'000*	Treasury shares *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2017	17	–	49	52,861	52,927
Profit for the year	–	–	–	16,242	16,242
Other comprehensive income for the year	–	–	426	–	426
Total comprehensive income for the year	–	–	426	16,242	16,668
Purchase of treasury shares *(Note i)*	–	(6,838)	–	–	(6,838)
Transfer of treasury shares *(Note ii)*	–	1,140	–	–	1,140
Dividends recognised as distribution *(Note 12)*	–	–	–	(10,029)	(10,029)
At 31 December 2017	17	(5,698)	475	59,074	53,868
Adjustment upon application of HKFRS 9 *(Note 3)*	–	–	–	(2,420)	(2,420)
At 1 January 2018	17	(5,698)	475	56,654	51,448
Profit for the year	–	–	–	27,354	27,354
Other comprehensive expense for the year	–	–	(357)	–	(357)
Total comprehensive (expense) income for the year	–	–	(357)	27,354	26,997
Dividends recognised as distribution *(Note 12)*	–	–	–	(20,849)	(20,849)
At 31 December 2018	17	(5,698)	118	63,159	57,596
Profit for the year	–	–	–	75,339	75,339
Other comprehensive expense for the year	–	–	(720)	–	(720)
Total comprehensive (expense) income for the year	–	–	(720)	75,339	74,619
Dividends recognised as distribution *(Note 12)*	–	–	–	(12,829)	(12,829)

	Share capital HK$'000	Treasury shares HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2019	17	(5,698)	(602)	125,669	119,386
Profit for the period	–	–	–	20,694	20,694
Other comprehensive income for the period	–	–	199	–	199
Total comprehensive income for the period	–	–	199	20,694	20,893
Dividends recognised as distribution *(Note 12)*	–	–	–	(29,486)	(29,486)
At 30 June 2020	17	(5,698)	(403)	116,877	110,793
At 1 January 2019	17	(5,698)	118	63,159	57,596
Profit for the period	–	–	–	27,931	27,931
Other comprehensive expense for the period	–	–	(241)	–	(241)
Total comprehensive (expense) income for the period	–	–	(241)	27,931	27,690
Dividends recognised as distribution *(Note 12)*	–	–	–	(4,967)	(4,967)
At 30 June 2019 (Unaudited)	17	(5,698)	(123)	86,123	80,319

Notes:

(i) On 1 January 2017, the Target Company entered into a redemption agreement with a former shareholder to repurchase 40 shares of the Target Company. Details are set out in Note 22(i).

(ii) On 1 June 2017, the Target Company transferred 6.667 existing shares from treasury shares to four employees of the Target Company with an aggregate cash consideration of US$145,848 (equivalent to approximately HK$1,140,000), which approximated to the fair value of the shares transferred.

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
OPERATING ACTIVITIES					
Profit before tax	17,654	29,815	84,169	31,235	25,908
Adjustments for:					
Finance costs	1,818	2,007	4,080	1,983	1,588
Depreciation of property and equipment	926	1,460	2,031	572	888
Depreciation of right-of-use assets	–	–	6,806	3,357	3,450
Impairment losses in respect of trade receivables and contracts assets, net of reversal	461	2,153	4,164	1,602	5,453
Interest income	(17)	(17)	(123)	(38)	(80)
Operating cash flows before working capital changes	20,842	35,418	101,127	38,711	37,207
Decrease (increase) in trade and other receivables	6,336	(69,384)	(31,804)	(9,401)	1,964
(Increase) decrease in contract assets	(5,315)	(21,525)	(29,959)	(31,432)	1,910
Increase in inventories	(80)	(153)	(288)	(482)	(843)
(Decrease) increase in trade payables	(12,294)	6,497	19,688	6,305	(22,520)
Increase in other payables and accrued expenses	6,945	621	13,196	5,975	7,546
(Decrease) increase in contract liabilities	(14,803)	80,927	(16,494)	31,162	932
Cash generated from operations	1,631	32,401	55,466	40,838	26,196
Income tax paid	–	–	(959)	(156)	–
NET CASH FROM OPERATING ACTIVITIES	1,631	32,401	54,507	40,682	26,196
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	–	(2,668)	(1,422)	(458)	(128)
Interest received	17	17	123	38	80
Withdrawal of restricted cash	–	1,004	–	–	–

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
NET CASH FROM (USED IN) INVESTING ACTIVITIES	17	(1,647)	(1,299)	(420)	(48)
FINANCING ACTIVITIES					
Dividends paid	(10,029)	(20,849)	(12,829)	(4,967)	(29,486)
Interest paid	(1,818)	(2,007)	(4,080)	(1,983)	(1,588)
Other loan raised	–	–	–	–	76,526
New bank borrowings raised	29,655	15,668	3,115	3,137	54,600
Repayments of bank borrowings	(12,041)	(21,314)	(27,396)	(26,298)	(55,113)
Repayments to a former shareholder	(567)	(622)	(637)	(251)	(324)
Advance from shareholders	–	–	–	–	7,752
Repayments to shareholders	(681)	–	–	–	(772)
Repayments of lease liabilities	–	–	(5,711)	(2,578)	(3,259)
Proceeds from transfer of treasury shares	1,140	–	–	–	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	5,659	(29,124)	(47,538)	(32,940)	48,336
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,307	1,630	5,670	7,322	74,484
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	14,860	21,902	23,404	23,404	29,371
Effect of foreign exchange rate changes	(265)	(128)	297	(248)	211
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, represented by bank balances and cash	21,902	23,404	29,371	30,478	104,066

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

1. GENERAL

The Target Company is a corporation incorporated in New York. Prior to the acquisition of the Target Company by the Company (the "Acquisition"), the controlling shareholder of the Target Company is Mr. Mark Gregorio ("Mr. Gregorio"), who is also the President of the Target Company. Upon the completion of the Acquisition on 31 March 2020, the Target Company is controlled by the Company and became a non-wholly owned subsidiary of the Company. On 10 August 2020, the Company through its wholly-owned subsidiary disposed of 2% of equity interest in the Target Company to Mr. Gregorio (the "Disposal"). Upon the completion of the Disposal on 10 August 2020, the Company loses control over the Target Company. The address of the registered office and principal place of business of the Target Company is located at 30-30 47th Avenue, Suite 610 Long Island City, NY 11101, United States of America ("USA").

The Target Company is engaged in provision of maintenance, repair, modernization and installation services of elevators and escalators in both commercial and residential properties in the New York metropolitan area.

The functional currency of the Target Company is United States dollars ("US$"). The Historical Financial Information is presented in HK$. The directors of the Target Company consider that the presentation of the Historical Financial Information in HK$ is more appropriate for the convenience of the shareholders of the Company, as a listed company in Hong Kong.

2. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs issued by the HKICPA.

The statutory financial statements of the Target Company were prepared in accordance with accounting principles generally accepted in the USA and were audited by Grassi & Co. a certified public accountant registered in the USA, for each of the years ended 31 December 2017, 2018 and 2019.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing the Historical Financial Information for the Relevant Periods, the Target Company has consistently applied the accounting policies which conform with HKFRSs and the *Amendments to References to the Conceptual Framework in HKFRS Standards* that are effective for the financial year beginning on 1 January 2020 and throughout the Relevant Periods, except that the Target Company adopted (i) HKFRS 9 *Financial Instruments* ("HKFRS 9") since 1 January 2018 and Hong Kong Accounting Standard ("HKAS") 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39") for the year ended 31 December 2017 and (ii) HKFRS 16 *Leases* ("HKFRS 16") since 1 January 2019 and HKAS 17 *Leases* ("HKAS 17") for the years ended 31 December 2017 and 2018. Comparative information is not restated. Accordingly, certain comparative information is not comparable. The impact of these new and amendments to HKFRSs are described below.

HKFRS 9

The Target Company has applied HKFRS 9 for the first time during the year ended 31 December 2018. HKFRS 9 superseded HKAS 39 and the related consequential amendments to other HKFRSs.

The Target Company has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and contract assets, and (3) general hedge accounting.

The Target Company has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening retained profits, without restating the comparative information.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 4.

Classification and measurement of financial instruments

All financial assets and financial liabilities continue to be measured on the same basis as were previously measured under HKAS 39.

Impairment of financial assets and contract assets

At 1 January 2018, the management of the Target Company reviewed and assessed the Target Company's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

The Target Company applies simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. Except for those which had been determined as credit impaired, the remaining trade receivables and contract assets have been assessed collectively using a provision matrix with appropriate groupings. ECL for other financial assets at amortised cost, mainly comprise of restricted cash and bank balances, are measured on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of approximately HK$2,420,000 for not credit-impaired trade receivables has been recognised against retained profits. The additional loss allowance is charged against the trade receivables. Based on the assessment performed by the management of the Target Company, the ECL on other financial assets at amortised cost and contract assets is insignificant and therefore did not result in an adjustment of opening retained profits.

All loss allowances for trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables *HK$'000*
As at 31 December 2017 – HKAS 39	4,079
Amounts remeasured through opening retained profits	2,420
At 1 January 2018 – HKFRS 9	6,499

Impacts on opening statement of financial position arising from the application of HKFRS 9

As a result of the changes in the Target Company's accounting policies above, the opening statement of financial position as at 1 January 2018 had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	At 31 December 2017 *HK$'000* **(Audited)**	**HKFRS 9** *HK$'000*	**At 1 January 2018** *HK$'000* **(Restated)**
Current assets			
Trade and other receivables	154,949	(2,420)	152,529
Capital and reserves			
Reserves	53,851	(2,420)	51,431

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

HKFRS 16

The Target Company has applied HKFRS 16 for the first time during the year ended 31 December 2019. HKFRS 16 superseded HKAS 17 and the related interpretations. The Target Company applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

The Target Company has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Company has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Target Company applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Target Company has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Target Company recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Target Company applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Target Company's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Target Company has applied incremental borrowing rates of the Target Company at the date of initial application. The weighted average incremental borrowing rate applied is 6.59% per annum.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	53,751
Lease liabilities discounted at relevant incremental borrowing rates	41,909
Less: Recognition exemption – short-term leases	(1,129)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	40,780
Analysed as	
Current	5,530
Non-current	35,250
	40,780

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Note	Right-of-use assets
		HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		40,780
Less: Accrued lease liabilities relating to rent-free period at 1 January 2019	*(a)*	(4,572)
		36,208

	HK$'000
By class:	
– Leased properties	32,447
– Leased motor vehicles and equipment	3,761
	36,208

Note:

(a) These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

The following adjustments were made to the amounts recognised in the statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Right-of-use assets	–	36,208	36,208
Current liabilities			
Lease liabilities	–	5,530	5,530
Non-current liabilities			
Other payables and accrued expenses	4,572	(4,572)	–
Lease liabilities	–	35,250	35,250

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

The Target Company has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to HKFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020[3]

[1] Effective for annual periods beginning on or after 1 January 2023

[2] Effective for annual periods beginning on or after a date to be determined

[3] Effective for annual periods beginning on or after 1 June 2022

[4] Effective for annual periods beginning on or after 1 June 2020

[5] Effective for annual periods beginning on or after 1 January 2021

The directors of the Target Company anticipate that the application of all the new and amendments to HKFRSs will have no material impact on the Target Company's financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information of the Target Company has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Revenue from contracts with customers

The Target Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;

- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or

- the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Target Company recognises revenue when it transfers control of a product or service to a customer. The Target Company recognises revenue from the following major sources: 1) provision of contracting services and 2) provision of maintenance services.

Provision of contracting services

Recognition

The Target Company provides contracting services under long-term contracts with customers. Such contracts are entered into before the contracting services begin. Under the terms of the contracts, the customers control the properties during the course of construction work providing by the Target Company. Revenue from provision of contracting services is therefore recognised over time using input method. The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Target Company's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Target Company's performance in transferring control of goods or services. The directors of the Target Company consider that input method would faithfully depict the Target Company's performance towards complete satisfaction of the performance obligation under HKFRS 15.

For contracts that contain variable consideration (i.e. variation order), the Target Company estimates the amount of consideration to which it will be entitled using the expected value method, which better predicts the amount of consideration to which the Target Company will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Target Company updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the change in circumstances during the reporting period.

For warranty embedded to the construction contracts, the Target Company accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the contracting work complies with the agreed-upon specifications.

Contract assets/liabilities

A contract asset represents the Target Company's right to consideration in exchange for goods or services that the Target Company has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Target Company's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Target Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Provision of maintenance services

Recognition

The Target Company provides maintenance services to customers. Income is recognised over the contract period when the relevant services are provided by the Target Company and the customers simultaneously receive and consume the benefits provided by the Target Company's performance.

Leases

The Target Company as lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 3)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Target Company assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 3)

Short-term leases

The Target Company applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Target Company; and

- an estimate of costs to be incurred by the Target Company in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Company presents right-of-use assets as a separate line item on the statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Target Company recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Target Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable by the Target Company under residual value guarantees;

- the exercise price of a purchase option if the Target Company is reasonably certain to exercise the option; and

- payments of penalties for terminating a lease, if the lease term reflects the Target Company exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Target Company remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Target Company presents lease liabilities as a separate line item on the statements of financial position.

Lease modifications

The Target Company accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Target Company remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Target Company accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset.

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 remain 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Company expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Target Company applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property and equipment

Property and equipment are stated in the statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property and equipment and right-of-use assets

At the end of each reporting period, the Target Company reviews the carrying amounts of its property and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

In addition, corporates assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Target Company assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Target Company compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories comprise elevator parts are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Company recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Foreign currencies

In preparing the financial statements of the Target Company, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Target Company are translated into the presentation currency (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve. Such exchange differences accumulated in the translation reserve are not reclassified to profit or loss subsequently.

Financial instruments

Financial assets and financial liabilities are recognised when the Target Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, restricted cash and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio over the credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and contract assets, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Target Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term;

- on initial recognition it is a part of a portfolio of identified financial instruments that the Target Company manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Target Company may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets and contract assets subject to impairment assessment under HKFRS 9 (upon application HKFRS 9 with transitions in accordance with Note 3)

The Target Company performs impairment assessment under ECL model on financial assets (including trade and other receivables, restricted cash and bank balances) and contract assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after each reporting date.

Assessment is done based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at each reporting date as well as the forecast of future conditions.

The Target Company always recognises lifetime ECL for trade receivables and contract assets. Except for those which had been determined as credit impaired, the remaining balances are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Company compares the risk of a default occurring on the financial instrument as at each reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Company has reasonable and supportable information that demonstrates otherwise.

The Target Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Target Company considers the followings as constituting events of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the original effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status; and

- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Target Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Target Company's own equity instruments.

Financial liabilities at amortised cost

Financial liabilities (including trade payables, amount due to a former shareholder, amounts due to shareholders, other loan and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, which are described in Note 4, the directors of the Target Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Revenue recognition of construction contracts

The Target Company recognises contract revenue of a construction contract according to the management's estimation of the outcome of the project as well as the stage of completion of construction works, which is determined by input method. The stage of completion is determined based on the Target Company's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. Estimated construction revenue is determined in accordance with the terms set out in the relevant contract. Construction cost which mainly comprise sub-contracting charges and costs of materials are estimated by the management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and the experience of the management. Notwithstanding that management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will have significant impact on the revenue and profit recognised.

Estimated impairment of trade receivables and contract assets

Prior to 1 January 2018, when there is objective evidence of impairment loss, the Target Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the actual future cash flows are less than expected, or being revised downward due to the change in facts and circumstances, a material impairment loss/further impairment loss may arise.

As at 31 December 2017, the carrying amounts of trade receivables were approximately HK$149,359,000, net of allowance of doubtful debts of approximately HK$4,079,000.

Starting from 1 January 2018, the Target Company adopted HKFRS 9. Trade receivables and contract assets with credit-impaired are assessed for ECL individually. The Target Company estimates the contractual cash flow expected to receive, based on the evidence of credit-impairment and forward-looking information. The Target Company estimates the amount of lifetime ECL of the remaining trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors and past due status of respective receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

Assessment is done based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The information about the Target Company's trade receivables and contract assets and the ECL assessment is disclosed in Notes 17, 16 and 32(b), respectively.

As at 31 December 2018 and 2019 and 30 June 2020, the total carrying amounts of trade receivables and contract assets of the Target Company amounted to approximately HK$297,579,000, HK$345,084,000 and HK$336,887,000, net of allowance for credit losses of approximately HK$6,714,000, HK$9,071,000 and HK$13,312,000, respectively.

6. REVENUE AND SEGMENT INFORMATION

The Target Company recognises revenue from provision of contracting work and maintenance work during the Relevant Periods.

Revenue

Disaggregation of revenue from contracts with customers

The following is an analysis of the Target Company's revenue from its major services:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Recognised over time and long-term contracts					
Contracting work	454,511	491,647	628,510	244,963	277,469
Maintenance work	240,247	253,858	301,496	180,831	168,473
	694,758	745,505	930,006	425,794	445,942

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 31 December 2017 and the expected timing of recognising revenue are as follows:

	Contracting work	**Maintenance work**
	HK$'000	*HK$'000*
Within one year	323,374	19,187
More than one year but not more than two years	179,268	8,920
More than two years	97,393	2,868
	600,035	30,975

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Contracting work	**Maintenance work**
	HK$'000	*HK$'000*
Within one year	477,074	50,229
More than one year but not more than two years	262,140	13,559
More than two years	156,177	1,160
	895,391	64,948

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and the expected timing of recognising revenue are as follows:

	Contracting work *HK$'000*	Maintenance work *HK$'000*
Within one year	540,743	35,875
More than one year but not more than two years	355,277	2,377
More than two years	217,218	146
	1,113,238	38,398

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2020 and the expected timing of recognising revenue are as follows:

	Contracting work *HK$'000*	Maintenance work *HK$'000*
Within one year	619,633	29,895
More than one year but not more than two years	370,901	1,143
More than two years	245,079	–
	1,235,613	31,038

Segment information

Revenue and operating result of the Target Company are reported to the directors of the Target Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment. The accounting policies are the same as the Target Company's accounting policies described in Note 4. No other analysis of the Target Company's results nor assets and liabilities is regularly provided to the CODM for review and the CODM reviews the overall results and financial position of the Target Company as a whole. Accordingly, only entity-wide disclosures on revenue, major customers and geographical information are presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

No customer generated revenue more than 10% of the Target Company's revenue during the Relevant Periods.

Geographical information

The Target Company principally operates in USA, which is also the place of domicile. The Target Company's revenue is all derived from operations in USA and the Target Company's non-current assets are all located in USA.

7. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Bank interest income	17	17	123	38	80
Government subsidies *(Note)*	5,565	5,597	6,452	2,796	3,744
	5,582	5,614	6,575	2,834	3,824

Note: In 2015, the Target Company was certified as eligible under the New York City Relocation and Employment Assistance Program (the "REAP") for refundable business tax credits. The Target Company will be entitled to use these benefits up to twelve years. The program requires annual recertification. During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, benefits from the REAP amounted to approximately HK$5,565,000, HK$5,597,000, HK$6,452,000, HK$2,796,000 (unaudited) and HK$3,120,000, respectively. At the end of each reporting period, there are no unfulfilled conditions attached to the REAP.

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on bank borrowings	1,647	1,844	1,319	565	153
Interest on other loan	–	–	–	–	190
Interest on amount due to a former shareholder	171	163	146	75	66
Interest on lease liabilities	–	–	2,615	1,343	1,179
	1,818	2,007	4,080	1,983	1,588

9. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit for the year/period has been arrived at after charging:					
Auditor's remuneration	952	1,001	1,331	883	702
Staff costs (including directors' remuneration):					
– Directors' fee	–	–	–	–	–
– Salaries and other benefits	242,646	252,567	285,298	139,027	134,002
– Retirement benefits scheme contribution *(Note)*	974	1,213	11,067	738	823
	243,620	253,780	296,365	139,765	134,825
Depreciation of property and equipment *(Note 13)*	926	1,460	2,031	572	888
Depreciation of right-of-use assets *(Note 14)*	–	–	6,806	3,357	3,450

Note: For the year ended 31 December 2019, the Target Company accrued a contribution to a non-contributory cash balance defined benefit pension plan (the "Plan") of US$805,274 (equivalent to approximately HK$6,271,000), as set out in Note 20(i).

10. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
State and local					
Current	1,370	2,425	6,974	2,901	6,784
Underprovision in prior years	–	–	1,098	–	–
	1,370	2,425	8,072	2,901	6,784
Deferred tax *(Note 26)*	42	36	758	403	(1,570)
	1,412	2,461	8,830	3,304	5,214

Prior to the Acquisition, the Target Company was treated as a S corporation for USA tax. It is subject to an average Income Tax rate of 8.85% for State of New York, State of New Jersey and New York City jurisdictions for its operations in the USA. Upon the completion of the Acquisition, the Target Company was treated as a C corporation for USA tax. It is subject to USA corporate tax representing 21% of the applicable USA Federal Income Tax rate and an average Income Tax rate of 15.25% for State of New York, State of New Jersey and New York City jurisdictions for its operations in the USA.

The income tax expense for the Relevant Periods can be reconciled to the profit before tax per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before tax	17,654	29,815	84,169	31,235	25,908
Tax at applicable tax rate *(Note)*	1,562	2,639	7,449	2,764	6,001
Tax effect of expenses not deductible for tax purposes	343	317	854	787	–
Tax effect of income not taxable for tax purpose	(493)	(495)	(571)	(247)	(723)
Underprovision in prior years	–	–	1,098	–	–
Others	–	–	–	–	(64)
Income tax expense for the year/period	1,412	2,461	8,830	3,304	5,214

Note: Applicable tax rate of 8.85% was applied for the year ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019. For the six months ended 30 June 2020, applicable tax rate of 8.85% was applied for the three months ended 31 March 2020 and 36.25% was applied for the three months ended 30 June 2020.

11. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the transaction.

12. DIVIDENDS

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Target Company declared and paid dividends of an aggregate amount of HK$10,029,000 (HK$150,427 per share), HK$20,849,000 (HK$312,719 per share), HK$12,829,000 (HK$192,425 per share), HK$4,967,000 (HK$74,501 per share) (unaudited) and HK$29,486,000 (HK$442,268 per share), respectively, to its shareholders.

13. PROPERTY AND EQUIPMENT

	Leasehold improvement	**Machinery and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2017	6,310	3,797	10,107
Exchange realignment	49	30	79
At 31 December 2017 and 1 January 2018	6,359	3,827	10,186
Additions	189	2,479	2,668
Exchange realignment	16	7	23
At 31 December 2018 and 1 January 2019	6,564	6,313	12,877
Additions	615	807	1,422
Exchange realignment	(43)	(43)	(86)

	Leasehold improvement *HK$'000*	Machinery and equipment *HK$'000*	Total *HK$'000*
At 31 December 2019 and 1 January 2020	7,136	7,077	14,213
Additions	27	101	128
Exchange realignment	12	12	24
At 30 June 2020	7,175	7,190	14,365
DEPRECIATION			
At 1 January 2017	1,045	2,733	3,778
Provided for the year	666	260	926
Exchange realignment	11	22	33
At 31 December 2017 and 1 January 2018	1,722	3,015	4,737
Provided for the year	708	752	1,460
Exchange realignment	4	6	10
At 31 December 2018 and 1 January 2019	2,434	3,773	6,207
Provided for the year	844	1,187	2,031
Exchange realignment	(20)	(30)	(50)
At 31 December 2019 and 1 January 2020	3,258	4,930	8,188
Provided for the period	369	519	888
Exchange realignment	6	8	14
At 30 June 2020	3,633	5,457	9,090
CARRYING VALUES			
At 31 December 2017	4,637	812	5,449
At 31 December 2018	4,130	2,540	6,670
At 31 December 2019	3,878	2,147	6,025
At 30 June 2020	3,542	1,733	5,275

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvement	Over the lease term
Machinery and equipment	20%

As at 31 December 2017, 2018 and 2019 and 30 June 2020, property and equipment with carrying amounts of HK$4,880,000, HK$4,122,000, HK$1,805,000 and HK$1,315,000, respectively have been pledged to secure the bank borrowings as disclosed in Note 23.

14. RIGHT-OF-USE ASSETS

	As at 1 January 2019	As at 31 December 2019	As at 30 June 2020
	HK$'000	*HK$'000*	*HK$'000*
Carrying amounts:			
Leased motor vehicles and equipment	3,761	4,239	3,333
Leased properties	32,447	27,186	24,694
	36,208	31,425	28,027

	Year ended 31 December	Six months ended 30 June	
	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
		(Unaudited)	
Depreciation recognised in profit or loss:			
Leased motor vehicles and equipment	1,708	806	913
Leased properties	5,098	2,551	2,537
	6,806	3,357	3,450

	Year ended 31 December	Six months ended 30 June	
	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
		(Unaudited)	
Expense relating to short-term leases	1,607	1,256	245
Total cash outflow for leases	9,933	5,177	4,683
Additions to right-of-use assets	2,212	1,288	–

The Target Company leases various office equipment and office premises for its operations. Lease contracts are entered into for fixed term of 1 to 10 years.

The Target Company does not have the option to purchase the leased motor vehicles and equipment and properties at a nominal amount at the end of the relevant lease terms or any extension/termination options which are solely at the Target Company's discretion. The Target Company's obligations are secured by the rental deposits for such leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Target Company determines the lease period to be the non-cancellable period based on the contractual terms of the contract.

The Target Company regularly entered into short-term leases for staff quarters. As at 31 December 2019 and 30 June 2020, the portfolio of short-term leases is similar to the portfolio of short term leases to which the short-term lease expense disclosed above.

15. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods	1,612	1,769	2,045	2,891

16. CONTRACT ASSETS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract assets	64,294	85,967	115,465	114,105
Less: allowance for credit losses	–	(1,586)	(2,080)	(2,441)
	64,294	84,381	113,385	111,664

As at 1 January 2017, contract assets amounted to approximately HK$58,513,000.

As at 1 January 2017, 31 December 2017, 2018 and 2019 and 30 June 2020, contract assets include retention receivables of approximately HK$42,688,000, HK$44,376,000, HK$58,323,000, HK$68,387,000 and HK$77,197,000, respectively.

The Target Company 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 the retention period of the respective construction contract. The Target Company did not have any retention receivables that were past due but not impaired at the end of each 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 Target Company has unconditional right to the consideration.

Since 1 January 2018, the Target Company applies the simplified approach to measure ECL which uses a lifetime ECL for all contract assets prescribed by HKFRS 9. Except for credit-impaired contract assets, the remaining contract assets have been assessed based on provision matrix, grouped by the Target Company's internal credit rating at each reporting date.

Details of impairment assessment are set out in Note 32(b).

17. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables *(Note)*	153,438	218,326	238,690	236,094
Less: allowance for doubtful debts/ credit losses	(4,079)	(5,128)	(6,991)	(10,871)
	149,359	213,198	231,699	225,223
Advances to employees	25	–	–	–
REAP receivables	5,565	5,597	6,452	3,120
	154,949	218,795	238,151	228,343

Note: Included in the balances as at 31 December 2017, 2018 and 2019 and 30 June 2020, approximately HK$1,058,000, HK$896,000, HK$2,995,000 and HK$362,000 were unbilled revenue. Unbilled revenue represents accrued revenue for works performed by the Target Company but yet to bill. The Target Company has unconditional right to the payment of unbilled revenue which is expected to be billed within 90 days and received within 12 months from the end of each reporting period.

As at 1 January 2017, the trade receivables amounted to approximately HK$161,885,000.

The Target Company generally allows credit period of 30 days to its customers. The Target Company will assess the credit quality of each potential customer and define rating and credit limit for each customer. In addition, the Target Company will review the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of trade receivables. Trade receivables that are neither past due nor impaired have good credit quality and low default rate under the internal credit assessment adopted by the Target Company. The Target Company does not hold any collateral over these balances.

Ageing of trade receivables (excluding unbilled revenue) net of allowance for doubtful debts/credit losses, presented based on the invoice dates are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	HK$'000	HK$'000	HK$'000
0 – 30 days	39,299	50,059	80,366	49,217
31 – 60 days	43,105	46,875	44,882	41,538
61 – 90 days	9,264	30,822	23,143	14,021
91 – 120 days	3,141	19,588	10,608	20,647
Over 120 days	53,492	64,958	69,705	99,438
	148,301	212,302	228,704	224,861

As at 31 December 2017, included in the trade receivables balance are debtors with an aggregate carrying amount of HK$109,002,000 which were past due at the end of each reporting period for which the Target Company has not provided for impairment loss.

Ageing of trade receivables which are past due but not impaired:

	Year ended 31 December 2017 HK$'000
Overdue:	
0 – 30 days	43,105
31 – 60 days	9,264
61 – 90 days	3,141
Over 90 days	53,492
	109,002

Movement in the allowance for doubtful debts:

	As at 31 December 2017 HK$'000
At beginning of the year	5,110
Impairment loss recognised	461
Write-offs	(1,522)
Exchange realignment	30
At end of the year	4,079

Included in the allowance for doubtful debts as at 31 December 2017 are individually impaired trade receivables with an aggregate balance of approximately HK$7,769,000, which the Target Company has chased for settlement from these customers for months but the amounts remain unsettled and due over the normal credit period and are considered as irrecoverable.

As at 31 December 2018 and 2019 and 30 June 2020, included in the Target Company's trade receivables balance are debtors with an aggregate carrying amount of approximately HK$162,243,000, HK$148,338,000 and HK$175,644,000 which are past due as at the reporting date. Out of the past due balances approximately HK$64,958,000, HK$69,705,000 and HK$99,438,000 have been past due over 90 days or more and are not considered as in default as there has not been a significant change in credit quality and based on good repayment records for those customers and long-term continuous business with the Target Company.

Since 1 January 2018, the Target Company applies the simplified approach to measure ECL which uses a lifetime ECL for all trade receivables prescribed by HKFRS 9. Except for credit-impaired trade receivables, the remaining trade receivables have been assessed based on provision matrix, grouped by the Target Company's internal credit rating at the reporting date.

Details of impairment assessment are set out in Note 32(b).

18. BANK BALANCES AND CASH/RESTRICTED CASH

Bank balances carried interest at prevailing market rate of 0.01% per annum as at 31 December 2017, 2018 and 2019 and 30 June 2020.

Restricted cash carries interest at market rates ranging from 0.50% to 1.47%, 1.39% to 2.45%, 1.52% to 2.49% and 1.32% to 2.36% per annum as at 31 December 2017, 2018 and 2019 and 30 June 2020. The balance represents escrow funds held by the insurance company.

19. TRADE PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	77,333	84,023	103,086	80,738

The credit period on trade payables is ranging from 30 to 90 days. The aging analysis of the Target Company's trade payables below is presented based on the invoice date at the end of each reporting period:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	29,003	25,902	67,693	37,690
31 – 60 days	13,500	15,174	11,327	27,604
61 – 90 days	11,495	12,126	14,793	6,085
Over 90 days	23,335	30,821	9,273	9,359
	77,333	84,023	103,086	80,738

20. OTHER PAYABLES AND ACCRUED EXPENSES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrued contract costs	19,187	17,101	23,236	26,023
Accrued staff costs	8,907	10,816	11,377	16,699
Accrued defined benefit plan *(Note i)*	–	–	6,271	6,281
Other tax payables	1,440	2,288	1,306	795
Accrued lease liabilities *(Note ii)*	4,163	4,572	–	–
Others	552	6	1,418	1,301
	34,249	34,783	43,608	51,099
Analysed as				
Current	30,086	30,211	43,608	51,099
Non-current	4,163	4,572	–	–
	34,249	34,783	43,608	51,099

Notes:

(i) In 2019, the Target Company established the Plan. The Plan covers substantially all of its employees whose benefits are not subject to collective bargaining agreements. Collective bargaining agreements refer to employees whose employment is governed by the terms of a collective bargaining agreement between employees and the Target Company under which retirement benefits were the subject of good faith bargaining between the parties. For the year ended 31 December 2019, the Target Company accrued a contribution to the Plan of US$805,274 (equivalent to approximately HK$6,271,000). The Plan was inactive since 1 January 2020 and therefore, no benefit was accrued since 1 January 2020. Up to the date of this report, the Target Company is in progress of terminating the Plan.

(ii) Accrued lease liabilities as at 31 December 2018 were adjusted upon the initial application of HKFRS 16 on 1 January 2019. Details of the adjustments are set out in Note 3.

21. CONTRACT LIABILITIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract liabilities	45,948	126,931	109,777	110,892

As at 1 January 2017, the contract liabilities amounted to approximately HK$60,320,000.

When the Target Company receives a deposit before the construction activity or receives advanced payment during the construction activity, this will give rise to contract liabilities, until the revenue recognised on the relevant contract exceeds the amount of the deposit or advanced payment.

The following table shows how much of the revenue recognised for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 relates to the contract liabilities at the beginning of the year/period:

	As at 31 December			Six months ended 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue recognised during the year/period	60,320	45,948	126,931	80,006

22. AMOUNTS DUE TO A FORMER SHAREHOLDER AND SHAREHOLDERS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to a former shareholder *(Note i)*	6,286	5,681	5,014	4,698
Analysed as				
Current	619	637	651	661
Non-current	5,667	5,044	4,363	4,037
	6,286	5,681	5,014	4,698
Amounts due to shareholders *(Note ii)*	1,792	1,797	1,786	8,769

Notes:

(i) On 1 January 2017, the Target Company entered into a redemption agreement with a former shareholder to repurchase 40 shares of the Target Company at a consideration of US$1,000,000 (equivalent to approximately HK$7,800,000) and settled by promissory note issued by the Target Company (the "Promissory Note"). The Promissory Note will be settled in 120 equal monthly instalments commencing on 1 February 2017 and carries interest at 2.71% per annum. The present value of the Promissory Note as at 1 January 2017 amounted to US$875,094 (equivalent to approximately HK$6,838,000).

(ii) The balances are non-trade nature, unsecured, non-interest bearing and repayable on demand.

23. BANK BORROWINGS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Note payables *(Note (i))*	3,638	1,688	2,128	1,619
Revolving loans *(Note (ii))*	28,341	24,731	–	–
	31,979	26,419	2,128	1,619
The carrying amounts of the bank borrowings that are repayable*:				
Within one year	1,950	1,688	1,037	1,066
Within a period of more than one year but not exceeding two years	1,688	–	1,091	553
	3,638	1,688	2,128	1,619
The carrying amounts of the bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable*:				
Within one year	3,610	24,731	–	–
Within a period of more than one year but not exceeding two years	24,731	–	–	–
	28,341	24,731	–	–
	31,979	26,419	2,128	1,619
Less: Amounts due within one year shown under current liabilities	(30,291)	(26,419)	(1,037)	(1,066)
Amount shown under non-current liabilities	1,688	–	1,091	553

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Notes:

(i) In October 2015, the Target Company obtained a bank loan to finance the leasehold improvements to its new office and acquisition of equipments. The loan is repayable in monthly instalments of US$21,912 (equivalent to HK$171,000), including interest at 3.8% per annum, through October 2019. The loan is secured by the equipment and guaranteed by the shareholders of the Target Company.

In December 2018, the Target Company obtained a bank loan to finance the acquisition of new computer system and software. The loan is repayable in monthly instalments of US$12,001 (equivalent to HK$94,000), including interest at 5.0% per annum, through December 2021. The loan is secured by the equipment and guaranteed by the shareholders of the Target Company.

(ii) As at 31 December 2017, 2018 and 2019 and 30 June 2020, the revolving loans are denominated in US$ and carry interest at prime rate in USA (the "Prime Rate") plus 1% per annum. The revolving loans are guaranteed by the shareholders of the Target Company. As at 31 December 2017 and 2018, the effective interest rates of the revolving loans are 5.5% and 6.59% per annum.

24. OTHER LOAN

During the six months ended 30 June 2020, the Target Company obtained a government loan from USA government under the paycheck protection program amounted to approximately US$9,848,000 (equivalent to HK$76,526,000) (the "PPP Loan"). The paycheck protection program is a loan designed to provide a direct incentive for entities to keep their workers on the payroll.

The PPP Loan is unsecured, carries interest at fixed rate of 1% per annum and has a maturity of two years from the date of the loan advanced.

The PPP Loan borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during 24-week period after the loan advanced (the "Covered Period"). A PPP Loan borrower can apply for forgiveness once it has used all loan proceeds for which the PPP Loan borrower is requesting forgiveness. PPP Loan borrowers can apply for forgiveness any time up to the maturity date of the loan. If the PPP Loan borrowers do not apply for forgiveness within ten months after the last day of the Covered Period, then PPP Loan payments are no longer deferred and the PPP Loan borrowers will begin making loan payments to the PPP Loan lender.

As at 30 June 2020, the Target Company recognises the PPP Loan received as a financial liability. The liability would become a government grant as forgivable loan if, and only if, the Target Company receives confirmation from the PPP Loan lender that the PPP Loan is forgiven.

25. LEASE LIABILITIES

	As at 31 December 2019	**As at 30 June 2020**
	HK$'000	*HK$'000*
Lease liabilities payable:		
Within one year	6,496	6,606
With a period more than one year but not more than two years	6,765	6,888
With a period more than two years but not more than five years	20,738	20,367
With a period more than five years	3,059	–
	37,058	33,861
Less: Amount due for settlement with 12 months shown under current liabilities	(6,496)	(6,606)
Amount due for settlement after 12 months shown under non-current liabilities	30,562	27,255

The weighted average incremental borrowing rate applied is 6.59% per annum.

26. DEFERRED TAXATION

Deferred tax assets (liabilities) recognised by the Target Company and the movements thereon during the Relevant Periods:

	Temporary difference on tax depreciation	**Temporary difference on accrued lease liabilities**	**Temporary difference on accrued payroll**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	333	337	–	670
(Charged) credited to profit or loss	(70)	28	–	(42)
Exchange realignment	3	3	–	6
At 31 December 2017 and 1 January 2018	266	368	–	634
(Charged) credited to profit or loss	(70)	34	–	(36)
Exchange realignment	–	1	–	1
At 31 December 2018 and 1 January 2019	196	403	–	599
Charged to profit or loss	(356)	(402)	–	(758)
Exchange realignment	(1)	(1)	–	(2)
At 31 December 2019 and 1 January 2020	(161)	–	–	(161)
Credited to profit or loss	41	–	1,529	1,570
At 30 June 2020	(120)	–	1,529	1,409

27. SHARE CAPITAL

	As at 31 December 2017, 2018 and 2019 and 30 June 2020	
	US$	*HK$'000*
Issue and fully paid		
66.67 ordinary shares	2,215	17

28. OPERATING LEASES

The Target Company as lessee

	Year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases	7,526	8,079

At the end of each reporting period, the Target Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2017	2018
	HK$'000	*HK$'000*
Within one year	7,318	8,044
In the second to fifth year inclusive	28,044	31,485
More than five years	21,328	14,222
	56,690	53,751

Operating lease payments represent rental payable by the Target Company for office equipment, office premises and staff quarters. Leases are negotiated and rentals are fixed for terms ranging from 1 to 10 years.

29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cash flows will be, classified in the Target Company's statements of cash flows as cash flows from financing activities.

	Dividend payables	Bank borrowings	Other loan	Lease liabilities	Amount due to a former shareholder	Amounts due to shareholders	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	–	14,212	–	–	–	2,456	16,668
Financing cash flows	(10,029)	15,967	–	–	(738)	(681)	4,519
Interest accruals	–	1,647	–	–	171	–	1,818
Consideration for repurchase of treasury shares	–	–	–	–	6,838	–	6,838
Dividend declared	10,029	–	–	–	–	–	10,029
Exchange realignment	–	153	–	–	15	17	185
At 31 December 2017 and 1 January 2018	–	31,979	–	–	6,286	1,792	40,057
Financing cash flows	(20,849)	(7,490)	–	–	(785)	–	(29,124)
Interest accruals	–	1,844	–	–	163	–	2,007
Dividend declared	20,849	–	–	–	–	–	20,849
Exchange realignment	–	86	–	–	17	5	108
At 31 December 2018	–	26,419	–	–	5,681	1,797	33,897
Adjustment upon application of HKFRS 16	–	–	–	40,780	–	–	40,780
At 1 January 2019	–	26,419	–	40,780	5,681	1,797	74,677
Financing cash flows	(12,829)	(25,600)	–	(8,326)	(783)	–	(47,538)
Interest accruals	–	1,319	–	2,615	146	–	4,080
New leases entered	–	–	–	2,212	–	–	2,212
Dividend declared	12,829	–	–	–	–	–	12,829
Exchange realignment	–	(10)	–	(223)	(30)	(11)	(274)

	Dividend payables	Bank borrowings	Other loan	Lease liabilities	Amount due to a former shareholder	Amounts due to shareholders	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2019	–	2,128	–	37,058	5,014	1,786	45,986
Financing cash flows	(29,486)	(666)	76,336	(4,438)	(390)	6,980	48,336
Interest accruals	–	153	190	1,179	66	–	1,588
Dividend declared	29,486	–	–	–	–	–	29,486
Exchange realignment	–	4	290	62	8	3	367
At 30 June 2020	–	1,619	76,816	33,861	4,698	8,769	125,763
At 1 January 2019	–	26,419	–	40,780	5,681	1,797	74,677
Financing cash flows	(4,967)	(23,726)	–	(3,921)	(326)	–	(32,940)
Interest accruals	–	565	–	1,343	75	–	1,983
New leases entered	–	–	–	1,288	–	–	1,288
Dividend declared	4,967	–	–	–	–	–	4,967
Exchange realignment	–	14	–	(110)	(15)	(5)	(116)
At 30 June 2019	–	3,272	–	39,380	5,415	1,792	49,859

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Historical Financial Information of the Target Company, the Target Company did not entered into any transactions with the related parties.

Compensation of key management personnel

The directors of the Target Company were considered to be the key management personnel of the Target Company. The remuneration of the directors of the Target Company is set out in Note 9.

31. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure that the Target Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance. The Target Company's overall strategy remained unchanged throughout the Relevant Periods.

The capital structure of the Target Company consists of net debt, which includes the amounts due to a former shareholder and shareholders disclosed in Note 22, bank borrowings disclosed in Note 23 and other loan disclosed in Note 24, net of cash and cash equivalents and equity of the Target Company, comprising issued share capital and reserves.

The directors of the Target Company review the capital structure regularly. As part of this review, the directors of the Target Company consider the cost of capital and the risks associated with share capital. Based on recommendations of the directors of the Target Company, the Target Company will balance its overall capital structure through the payment of dividends, new share issues, raising of new debt and repayment of existing debts.

32. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Financial assets at amortised cost	–	237,739	262,200	330,421
Loans and receivables (including bank balances and cash)	173,427	–	–	–
Financial liabilities				
Financial liabilities at amortised cost	117,390	117,920	112,014	172,640

b. Financial risk management objectives and policies

The Target Company's major financial instruments include trade and other receivables, restricted cash, bank balances and cash, trade payables, amounts due to a former shareholder and shareholders, bank borrowings and other loan. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Target Company is exposed to fair value interest rate risk in relation to fixed-rate amount due to a former shareholder (see Note 22 for details), bank borrowings (see Note 23 for details), other loan (see Note 24 for details) and lease liabilities (see Note 25 for details). The Target Company is also exposed to cash flow interest rate risk in relation to variable-rate restricted cash and bank balances (see Note 18 for details) and bank borrowings (see Note 23 for details). The Target Company's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on restricted cash and bank balances and fluctuation of Prime Rate on bank borrowings.

The Target Company currently does not have an interest rate hedging policy. However, the management monitors interest rate risk exposure and will consider interest rate hedging should the need arises.

Sensitivity analysis

The Target Company had no variable-rate bank borrowing as at 31 December 2019 and 30 June 2020. The sensitivity analysis below has been determined based on the exposure to interest rate risk for bank borrowings as at 31 December 2017 and 2018. The analysis is prepared assuming the amount of bank borrowings outstanding at 31 December 2017 and 2018 was outstanding for the whole year.

A 50 basis points increase or decrease representing management's assessment of the reasonably possible change in interest rate is used. If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Target Company's post-tax profit for the years ended 31 December 2017 and 2018 would be decreased/increased by approximately HK$129,000 and HK$113,000, respectively.

Bank balances and restricted cash are excluded from sensitivity analysis as the directors of the Target Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances and restricted cash is insignificant.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Company's counterparties default on their contractual obligations resulting in financial losses to the Target Company. The Target Company's credit risk exposures are primarily attributable to trade receivables, contract assets, restricted cash and bank balances. The Target Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and contract assets.

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Target Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Target Company reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment loss is recognised for irrecoverable amount. In this regard, the directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

In addition, the Target Company performs impairment assessment under ECL model upon application of HKFRS 9 (before adoption of HKFRS 9: incurred loss model) based on provision matrix. Except for credit-impaired trade receivables and contract assets, the remaining trade receivables and contract assets are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Details of the quantitative disclosures are set out below in this note.

The Target Company's concentration of credit risk by geographical locations is mainly in USA, which accounted for 100% of the trade receivables as at 31 December 2017, 2018 and 2019 and 30 June 2020.

Restricted cash and bank balances

Credit risk on restricted cash and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies and a large insurance company. The Target Company assessed 12m ECL for restricted cash and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on restricted cash and bank balances is considered to be insignificant.

The Target Company's internal credit risk grading assessment comprises the following categories:

Category	**Description**	**Trade receivables/ contract assets**	**Other financial assets/other items**
Low risk	The counterparty has a low risk of default and frequently repays after due dates and usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Target Company has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Target Company's financial assets and contract assets, which are subject to ECL assessment:

	Notes	As at 31 December 2018 and 2019 and 30 June 2020 External credit rating	Internal credit rating	12-month or lifetime ECL	As at 31 December 2018 Gross carrying amount HK$'000	2019 Gross carrying amount HK$'000	As at 30 June 2020 Gross carrying amount HK$'000
Financial assets at amortised costs							
Trade receivables	17	N/A	(Note)	Lifetime ECL (not credit-impaired) (provision matrix)	216,184	237,074	230,323
			Loss	Credit-impaired	2,142	1,616	5,771
					218,326	238,690	236,094
Restricted cash	18	A3 to AAA	N/A	12-month ECL	1,137	1,130	1,132
Bank balances	18	A3 to AAA	N/A	12-month ECL	23,404	29,371	104,066
Other item							
Contract assets	16	N/A	(Note)	Lifetime ECL (not credit-impaired) (provision matrix)	85,967	115,465	114,105
					328,834	384,656	455,397

Note: For trade receivables and contract assets, the Target Company has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for credit-impaired trade receivables and contract assets, the Target Company determines the ECL on these items by using a provision matrix, grouped by internal credit rating.

Provision matrix – internal credit rating

As part of the Target Company's credit risk management, the Target Company applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix within lifetime ECL (not credit impaired). Credit-impaired trade receivables with gross carrying amounts of approximately HK$2,142,000, HK$1,616,000 and HK$5,771,000, respectively as at 31 December 2018 and 2019 and 30 June 2020 were assessed individually.

Gross carrying amount

	As at 31 December						As at 30 June		
	2018			2019			2020		
Internal credit rating	Average loss rate	Trade receivables HK$'000	Contract assets HK$'000	Average loss rate	Trade receivables HK$'000	Contract assets HK$'000	Average loss rate	Trade receivables HK$'000	Contract assets HK$'000
Low risk	1.9%	216,184	85,967	1.9%	237,074	115,465	2.2%	230,323	114,105

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information (for example, the macroeconomic conditions affecting the industry and the impact that may result in debtor ability to make payments) that is available without undue cost or effort. The Target Company rebutted the presumption of default under ECL model for trade receivables over 90 days past due based on good repayment records for those customers and long-term/continuous business with the Target Company. Large number of small customers are assessed collectively based on provision matrix based on historical credit loss experience adjusted by forward looking estimates. The grouping is regularly reviewed by the management of the Target Company to ensure relevant information about specific debtors is updated. The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Target Company has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

During the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, the Target Company recognised credit loss allowance of approximately HK$566,000, HK$3,044,000 and HK$2,404,000 for trade receivables, based on the provision matrix. During the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, the Target Company recognised credit loss allowance of approximately HK$1,587,000, HK$507,000 and HK$358,000 for contract assets, based on the provision matrix.

The following table shows a movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (credit-impaired) *HK$'000*	**Lifetime ECL (not credit-impaired)** *HK$'000*	**Total** *HK$'000*
As at 31 December 2017			
– HKFRS 9	4,079	–	4,079
Adjustment upon application of HKFRS 9 *(Note 3)*	–	2,420	2,420
As at 1 January 2018			
– restated under HKFRS 9	4,079	2,420	6,499
Impairment losses recognised	–	2,892	2,892
Impairment losses reversed	–	(2,326)	(2,326)
Write-offs	(1,949)	–	(1,949)
Exchange adjustments	12	–	12
As at 31 December 2018 and 1 January 2019	2,142	2,986	5,128
Impairment losses recognised	613	5,508	6,121
Impairment losses reversed	–	(2,464)	(2,464)
Transfer to credit-impaired	615	(615)	–
Write-offs	(1,752)	–	(1,752)
Exchange adjustments	(2)	(40)	(42)
As at 31 December 2019 and 1 January 2020	1,616	5,375	6,991
Impairment losses recognised	2,691	4,339	7,030
Impairment losses reversed	–	(1,935)	(1,935)
Transfer to credit-impaired	2,703	(2,703)	–
Write-offs	(1,220)	–	(1,220)
Exchange adjustments	(19)	24	5
As at 30 June 2020	5,771	5,100	10,871

The following table shows a movement in lifetime ECL that has been recognised for contract assets under the simplified approach.

	Lifetime ECL (not credit-impaired)
	HK$'000
As at 1 January 2018	–
Impairment losses recognised	1,587
Exchange adjustments	(1)
As at 31 December 2018 and 1 January 2019	1,586
Impairment losses recognised	1,362
Impairment loss reversed	(855)
Exchange adjustments	(13)
As at 31 December 2019	2,080
Impairment losses recognised	1,419
Impairment loss reversed	(1,061)
Exchange adjustments	3
As at 30 June 2020	2,441

Liquidity risk

In the management of the liquidity risk, the Target Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Company's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Target Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from prevailing interest rate at the end of each reporting period.

	Weighted average interest rate	Repayable on demand	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2017								
Non-derivative financial liabilities								
Trade payable	–	77,333	–	–	–	–	77,333	77,333
Amounts due to shareholders	–	1,792	–	–	–	–	1,792	1,792
Amount due to a former shareholder	2.71	–	195	586	3,126	3,191	7,098	6,286
Bank borrowings:								
Fixed rate	3.80	–	514	1,542	1,713	–	3,769	3,638
Variable rate	5.55	28,341	–	–	–	–	28,341	28,341
		107,466	709	2,128	4,839	3,191	118,333	117,390

	Weighted average interest rate	Repayable on demand	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018								
Non-derivative financial liabilities								
Trade payable	–	84,023	–	–	–	–	84,023	84,023
Amounts due to shareholders	–	1,797	–	–	–	–	1,797	1,797
Amount due to a former shareholder	2.71	–	196	588	3,134	2,415	6,333	5,681
Bank borrowings:								
Fixed rate	3.80	–	515	1,202	–	–	1,717	1,688
Variable rate	6.59	24,731	–	–	–	–	24,731	24,731
		110,551	711	1,790	3,134	2,415	118,601	117,920

	Weighted average interest rate	Repayable on demand	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2019								
Non-derivative financial liabilities								
Trade payables	–	103,086	–	–	–	–	103,086	103,086
Amounts due to shareholders	–	1,786	–	–	–	–	1,786	1,786
Amount due to a former shareholder	2.71	–	195	584	3,115	1,557	5,451	5,014
Bank borrowing – fixed rate	5.00	–	280	841	1,121	–	2,242	2,128
		104,872	475	1,425	4,236	1,557	112,565	112,014
Lease liabilities	6.59	–	2,231	6,861	34,160	3,143	46,395	37,058

	Weighted average interest rate	Repayable on demand	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 30 June 2020								
Non-derivative financial liabilities								
Trade payables	–	80,738	–	–	–	–	80,738	80,738
Amounts due to shareholders	–	8,769	–	–	–	–	8,769	8,769
Amount due to a former shareholder	2.71	–	195	780	3,900	260	5,135	4,698
Bank borrowing – fixed rate	5.00	–	281	843	562	–	1,686	1,619
Other loan	1.00	–	192	576	77,585	–	78,353	76,816
		89,507	668	2,199	82,047	260	174,681	172,640
Lease liabilities	6.59	–	2,164	6,484	30,722	–	39,370	33,861

Bank borrowings with a repayment on demand clause are included in the "Repayable on demand" time band in the above maturity analysis. As at 31 December 2017 and 2018, the aggregate carrying amounts of these bank borrowings amounted to HK$28,341,000 and HK$24,731,000. Taking into account the Target Company's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Maturity Analysis – Bank borrowings with a repayment on demand clause based on scheduled repayments

	1–3 months	**3 months to 1 year**	**Over 1 year**	**Total undiscounted cash outflows**	**Carrying amounts**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2017	393	1,180	29,009	30,582	28,341
31 December 2018	402	25,021	–	25,423	24,731

The amounts scheduled above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value measurements of financial instruments

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 Target Company consider that the carrying amounts of financial assets and financial liabilities of the Target Company recorded at amortised cost in the Historical Financial Information approximate to their fair value based on discounted cash flows analysis.

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 30 June 2020.

Set out below is the management discussion and analysis of the Target Company for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020. The following financial information is based on the financial information of the Target Company as set out in Appendix II to this Circular.

BUSINESS REVIEW

In the USA, the four biggest companies in the market of equipment installation and maintenance services, namely, (i) Otis, (ii) Schindler, (iii) ThyssenKrupp and (iv) Kone control about 80% of the total USA market in this sector.

According to the New York City Department of Buildings (DOB) report in 2017, New York is claimed to be the largest stock in North America and oldest stock in the world as there were about 84,000 elevators in New York.

The Target Company is incorporated in 1989 in New York which is principally engaged in the business of providing new construction, modernization, repair and maintenance services in the vertical transportation sector for both residential and commercial real estate customers.

As at 30 June 2020, there were about 303 employees in the Target Company and it had between 2,200 to 2,400 elevators, representing under 3% of the market in New York City, the USA.

FINANCIAL REVIEW

(a) Financial performance

For the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the revenue of the Target Company was approximately HK$695 million, HK$746 million, HK$930 million and HK$446 million, respectively. The revenue has increased by approximately 7.3% from 2017 to 2018 and approximately 24.7% from 2018 to 2019 as the Target Company has successfully increased its market shares of a growing sector during the relevant periods by providing satisfactory services to its customers.

For the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the profit before tax of the Target Company was approximately HK$18 million, HK$30 million, HK$84 million and HK$26 million, respectively. The profit before tax has increased by approximately 68.9% from 2017 to 2018 and 182.3% from 2018 to 2019 as the Target Company was able to maximize the utilization of its existing resources, identify opportunities with better profitability and improve its cost control.

The Target Company maintained a healthy value of outstanding contracts during the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020. The Target Company's value of outstanding contracts for the six months ended 30 June 2020 was approximately HK$1,267 million.

(b) Liquidity and financial resources

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the net assets of the Target Company was approximately HK$54 million, HK$58 million, HK$119 million and HK$111 million, respectively.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the bank borrowings of the Target Company were approximately HK$32 million, HK$26 million, HK$2 million and HK$2 million, respectively. As at 30 June 2020, the Target Company also had a USA government loan of approximately HK$76.8 million which carries a fixed interest rate of 1% per annum and would be due in 2 years from the date of the loan advancement.

(c) Gearing ratio

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the gearing ratio (being gross borrowings divided by total equity) of the Target Company was approximately 59.4%, 45.9%, 1.8% and 70.8%, respectively.

(d) Contingent liabilities

The Target Company did not have any contingent liabilities as at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, respectively.

(e) Financial risk management

For the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the Target Company was mainly exposed to credit, liquidity and interest rate risks arising in the normal course of business.

As the operations of the Target Company were principally based in New York City, the USA for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, its principal assets (including cash and cash equivalents) and liabilities as well as its business transactions were predominantly conducted in US$. Therefore, the Target Company considered that it did not have any material exposure to fluctuations in exchange rate and no hedging measures were taken.

(f) Funding and treasury policy

The Target Company has adopted a prudent financial management approach towards it treasury policy. The Target Company closely monitored its liquidity position to ensure that the liquidity structure of its assets, liabilities, and other commitments can meet its funding requirements.

(g) Significant investment

The Target Company did not have any significant investments for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

(h) Charge of assets

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the charges of assets of the Target Company was approximately HK$5 million, HK$4 million, HK$2 million and HK$1 million, respectively.

(i) Employees and remuneration policy

The Target Company had 258, 286, 289 and 303 employees as at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, respectively.

The total remuneration paid to the Target Company's employees for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 was approximately HK$244 million, HK$254 million, HK$296 million and HK$135 million, respectively.

The employees were remunerated based on their working performance and experience, with consideration to the prevailing market conditions.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") presented below is prepared to illustrate the condensed consolidated statement of assets and liabilities of the Enlarged Group as if the Acquisition had been completed and the Put Right had been exercised on 30 June 2020. As the Acquisition had been completed on 31 March 2020, the assets and liabilities of the Target Company have been consolidated to the interim financial information of the Group ("Interim Financial Information") as set out in the published interim report of the Company for the six months ended 30 June 2020. Thus, in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, no additional adjustment is prepared to illustrate the effect of the Acquisition. The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 extracted from the Interim Financial Information of the Group, after making the pro forma adjustments relating to the exercise of Put Right that are directly attributable to the exercise of Put Right and not related to future events or decisions; and factually supportable.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information.

As the Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the condensed consolidated financial position of the Enlarged Group as at 30 June 2020 or at any future date had the Put Right been completed on 30 June 2020.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published interim report the Company for the six months ended 30 June 2020, and other financial information included elsewhere in the circular.

Unaudited Pro Forma Condensed Consolidated Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 30 June 2020	Pro forma adjustment	The Enlarged Group as at 30 June 2020
	HK$'000	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	
Non-current assets			
Investment properties	4,860		4,860
Property, plant and equipment	143,612		143,612
Right-of-use assets	63,606		63,606
Goodwill	130,629		130,629
Intangible assets	117,750		117,750
Deposits paid for acquisition of property, plant and equipment	2,782		2,782
Interests in associates	217,136		217,136
Restricted cash	1,132		1,132
Deferred tax assets	1,411		1,411
	682,918		682,918
Current assets			
Inventories	72,946		72,946
Contract assets	1,167,390		1,167,390
Trade receivables	972,760		972,760
Other receivables, deposits and prepayments	110,272		110,272
Amount due from an associate	–		–
Amounts due from partners of joint operations	13,226		13,226
Financial assets at fair value through profit or loss	14,224		14,224
Tax recoverable	19,751		19,751
Pledged bank deposits	13,167		13,167
Bank balances and cash	989,861	(201,771)	788,090
	3,373,597		3,171,826
Total assets	4,056,515		3,854,744

	The Group as at 30 June 2020	Pro forma adjustment	The Enlarged Group as at 30 June 2020
	HK$'000	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	
Current liabilities			
Trade and retention payables	490,956		490,956
Other payables and accrued expenses	1,119,840		1,119,840
Contract liabilities	206,397		206,397
Obligations in excess of interest in an associate	4,103		4,103
Amount due to a former shareholder of a subsidiary	661		661
Amounts due to non-controlling interests	8,769		8,769
Amounts due to partners of joint operations	175		175
Derivative financial instruments	203		203
Lease liabilities	21,831		21,831
Bank borrowings	1,066		1,066
Tax payable	31,367		31,367
	1,885,368		1,885,368
Non-current liabilities			
Bank borrowings	553		553
Other loan	76,816		76,816
Amount due to a former shareholder of a subsidiary	4,037		4,037
Lease liabilities	46,933		46,933
Deferred tax liabilities	40,289		40,289
Deferred income	2,567		2,567
Contingent consideration payables	106,897		106,897
	278,092		278,092
Total liabilities	2,163,460		2,163,460

Notes:

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the Interim Financial Information of the Group. As the Acquisition had been completed on 31 March 2020, the assets and liabilities of the Target Company have been consolidated to the Interim Financial Information of the Group for the six months ended 30 June 2020.

2. The adjustment represents cash consideration paid to the Acquisition Sellers for acquisition of the remaining 49% of equity interest in the Target Company from the Acquisition Sellers, assuming the Put Right was exercised on 30 June 2020.

	HK$'000
Cash consideration *(Note)*	201,771

Note: Amount represents the fair value of the 49% of equity interest in the Target Company as at 30 June 2020, which is determined by reference to a valuation carried out as at 30 June 2020 by an independent qualified professional valuer not connected with the Group, assuming the Put Right was exercised on 30 June 2020.

The fair value of the 49% of equity interest in the Target Company will only be determined at the date of the exercise of the Put Right, which may be substantially different from those amounts as at 30 June 2020 which are presented in the preparation of the unaudited Pro Forma Financial Information.

3. Apart from above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020 for the purpose of preparation of the unaudited pro forma financial information of the Enlarged Group. In addition, in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, no adjustment is prepared to illustrate the effect of the Disposal, which had been completed on 10 August 2020.

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Analogue Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Analogue Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2020 and related notes as set out on pages IV-1 to IV-4 of the circular issued by the Company dated 30 November 2020 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-4 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the acquisition of 51% of equity interest in Transel Elevator & Electric Inc. ("TEI") and the exercise of the put right by the selling shareholders of TEI (the "Transactions") on the Group's financial position as at 30 June 2020 as if the Transactions had taken place at 30 June 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed consolidated financial information for the six months ended 30 June 2020, on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- the unaudited pro forma financial information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 November 2020

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at the Latest Practicable Date, the interests or short positions of each of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning in Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO); (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), to be notified to the Company and the Stock Exchange were as follows:

(a) Interest in shares and/or short positions in the Company

Name of Director	Capacity/Nature of Interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding as at the Latest Practicable Date
Dr. Poon Lok To, Otto	Founder of a discretionary trust *(Note 2)*	888,650,000	63.48%
Mr. Law Wei Tak	Beneficial owner	52,500,000	3.75%

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, 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.

(b) 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 *(Note 1)*	Percentage of shareholding as at the Latest Practicable Date
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 the Latest Practicable Date, 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 the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning in Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO); (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

So far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or the underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	**Capacity/Nature of Interest**	**Number of Shares** *(Note 1)*	**Approximate percentage of shareholding as at the Latest Practicable Date**
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)*	888,650,000	63.48%
Mr. Webb David Michael ("**Mr. Webb**")	Interest of controlled corporation *(Note 3)*	70,420,000	5.03%

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 same number of Shares held by Arling Investment Limited under Part XV of SFO. 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 888,650,000 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. Mr. Webb is personally interested in 28,532,000 Shares and Preferable Situation Assets Limited, a company 100% controlled by Mr. Webb, is interested in 41,888,000 Shares. Mr. Webb is deemed to be interested in the 41,888,000 Shares owned by Preferable Situation Assets Limited by virtue of Part XV of the SFO.

Save as disclosed above and so far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, no person (other than the Directors or chief executive of the Company) had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or has, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group.

4. DISCLOSURE OF OTHER INTERESTS OF THE DIRECTORS

(i) Interests in competing interests

As at the Latest Practicable Date, none of the Directors and their respective close associates was considered to have an interest in any business which competes or is likely to compete or have any other conflict of interest, either directly or indirectly, with the business of the Group.

(ii) Interests in contracts or arrangements

The Company's office premises located on 12th Floor and 13th Floor of Island Place Tower, 510 King's Road, North Point, Hong Kong have been and will continue to be leased to ATAL Management Services Limited ("**AMSL**"), a wholly-owned subsidiary of the Company, by Perfect Motive Limited pursuant to a tenancy agreement entered into between AMSL and Perfect Motive Limited on 13 April 2018 ("**Connected Lease**"). Perfect Motive Limited is a wholly owned subsidiary of Wise Eagle Holdings Limited, which in turn is owned as to 84.63% by Arling Investment Limited, the holding company of the Company, and 5% by Mr. Law Wei Tak, an executive Director. 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, an executive Director and the chairman of the Company, is the settlor and protector of the trust. The term of the Connected Lease is from 13 April 2018 to 31 December 2020, and the aggregated rent of the Connected Lease for its entire term is HK$47,341,512.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any subsisting contract or arrangement which was significant in relation to the business of the Group.

(iii) Interests in assets

As at the Latest Practicable Date, AMSL proposed to enter into a tenancy agreement (as tenant) with Perfect Motive Limited (as landlord) to continue to lease the Company's office premises under the Connected Lease for the term from 1 January 2021 to 31 December 2022 at the rent of HK$1,350,000 per month ("**Proposed Connected Lease**") (terms of the Proposed Connected Lease are subject to approval by the Board). Dr. Poon Lok To, Otto, an executive Director and the chairman of the Company, and Mr. Law Wei Tak, an executive Director, are interested in the Proposed Connected Lease by virtue of their interests in the Connected Lease as disclosed in the paragraph headed "4. Disclosure of other interests of the Directors – (ii) interest in contracts or arrangements" in this Appendix.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or been proposed to enter, into any service contract with the Company or any other member of the Group which is not expiring or may not be terminable by the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the date of this Circular which are or may be material:

(i) the deed of indemnity dated 21 June 2019 entered into between Dr. Poon Lok To, Otto ("**Dr. Poon**") and the Company in respect of, among other things, certain indemnities regarding taxation, estate duty and claims provided by Dr. Poon in favour of the Company. There is no maximum amount of the indemnity to be provided by Dr. Poon pursuant to this deed of indemnity. Further information on this deed of indemnity is set forth in the section headed "Indemnities given by Dr. Poon" under Appendix IV of the Prospectus;

(ii) the cornerstone investment agreement dated 25 June 2019 entered into between the Company, Mr. YU Kam Kee Lawrence ("**Mr. Yu**"), BOCOM International (Asia) Limited (the "**Sole Sponsor**") and Elstone Securities Limited (the "**Sole Global Coordinator**"), pursuant to which Mr. Yu agreed to subscribe, or cause his designated entities to subscribe, at the offer price of HK$1.20 per Share, for such number of offer Shares which may be purchased with an aggregate amount of approximately HK$40 million. Further information on this cornerstone investment agreement is set forth in the section headed "Cornerstone Investment" in the Prospectus;

(iii) the cornerstone investment agreement dated 25 June 2019 entered into between the Company, Dato WONG Sin Just ("**Dato Wong**"), the Sole Sponsor and the Sole Global Coordinator, pursuant to which Dato Wong agreed to subscribe, or cause his designated entities to subscribe, at the offer price of HK$1.20 per Share, for such number of offer Shares which may be purchased with an aggregate amount of approximately HK$10 million. Further information of this cornerstone investment agreement is set forth in the section headed "Cornerstone Investment" in the Prospectus;

(iv) the underwriting agreement dated 27 June 2019 relating to the Hong Kong Public Offer (as defined in the Prospectus) entered into by the Company, the Sole Sponsor, the Sole Global Coordinator, Dr. Poon, Arling Investment Limited and the Hong Kong Underwriters (as defined in the Prospectus), pursuant to which each of the Hong Kong Underwriters have severally, but not jointly nor jointly and severally, agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares (as defined in the Prospectus) (ie. 35,000,000 new Shares being initially offered by the Company for subscription, subject to adjustments) which were not taken up under the Hong Kong Public Offer (as defined in the Prospectus) at HK$1.20 per Share on the terms and conditions of the Prospectus. The Hong Kong Underwriters received an underwriting commission from the Company of 9% of the aggregate offer price of all Hong Kong Offer Shares underwritten by them. Further information of this underwriting agreement is set out in the section headed "Underwriting" in the Prospectus;

(v) the international purchase agreement dated 8 July 2019 in relation to the International Placing (as defined in the Prospectus) entered into between, the Company, the Sole Sponsor, the Sole Global Coordinator, Dr. Poon, Arling Investment Limited, and the International Underwriters (as defined in the Prospectus), pursuant to which the International Underwriters have severally, but not jointly nor jointly and severally, agreed to subscribe or procure subscribers for their respective applicable proportions of the International Placing Shares (ie. 315,000,000 new Shares being initially offered by the Company) which were not taken up under the International Placing at HK$1.20 per Share on the terms and conditions of the Prospectus. The International Underwriters received an underwriting commission from the Company of 9% of the aggregate offer price of the International Placing Shares underwritten by them. Further information of this underwriting agreement is set forth in the section headed "Underwriting" in the Prospectus;

(vi) the Acquisition Agreement;

(vii) the Shareholders' Agreement;

(viii) the Disposal Agreement; and

(ix) the Amendment Document.

7. CLAIMS AND LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice contained in this Circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants Registered Public Interest Entity Auditors

The above expert has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its reports and/or letters (as the case may be) given as of the date of this Circular and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above expert did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which had been, since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any members of the Group.

9. CORPORATE INFORMATION

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
Branch share registrar and transfer office in Hong Kong	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company Secretary	Ms. Li Kit Chi, Fiona *Solicitor of Hong Kong*

10. LANGUAGE

The English texts of this Circular shall prevail over their Chinese texts in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at the principal place of business in Hong Kong situated at 13th Floor, Island Place Tower, 510 King's Road, North Point, Hong Kong from 9:00 a.m. to 5:30 p.m. on any business day from the date of this Circular up to 14 days thereafter:

(i) the memorandum of association and bye-laws of the Company;

(ii) the annual report of the Company for the year ended 31 December 2019 and the Prospectus;

(iii) the accountants' report of the Target Company, the text of which is set out in Appendix II to this Circular;

(iv) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this Circular;

(v) the material contracts referred to in the paragraph headed "6. Material Contracts" in this Appendix;

(vi) the written consent referred to in the paragraph headed "8. Expert and Consent" in this Appendix; and

(vii) this Circular.