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Geotech Holdings Ltd.

致浩達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1707)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the six months ended 30 June 2023 amounted to approximately HK\$63.0 million (six months ended 30 June 2022: approximately HK\$169.3 million).
- Loss attributable to the equity holders of the Company for the six months ended 30 June 2023 amounted to approximately HK\$6.5 million (six months ended 30 June 2022: approximately HK\$19.3 million).
- Basic and diluted loss per share for the six months ended 30 June 2023 amounted to approximately HK cents 0.39 (six months ended 30 June 2022: approximately HK cents 1.15).
- The Directors have resolved not to declare any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Geotech Holdings Ltd. (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2023 together with the comparative figures for the six months ended 30 June 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	HK\$’000	<i>HK\$’000</i>
		(unaudited)	(unaudited)
Revenue	4	62,997	169,251
Direct costs		<u>(61,874)</u>	<u>(167,280)</u>
Gross profit		1,123	1,971
Other income	5	3,058	2,285
Administrative expenses		(10,637)	(9,614)
Impairment under expected credit loss (“ ECL ”) allowance on other receivables	11(ii)	–	(13,855)
Finance costs	6	<u>(8)</u>	<u>(26)</u>
Loss before income tax	7	(6,464)	(19,239)
Income tax expense	8	<u>(53)</u>	<u>(105)</u>
Loss for the period		<u><u>(6,517)</u></u>	<u><u>(19,344)</u></u>
Other comprehensive income/(expenses), net of tax			
Items that will not be reclassified subsequently to profit or loss			
Fair value gain/(loss) on financial assets at fair value through other comprehensive income		<u>45</u>	<u>(204)</u>
Total comprehensive expense for the period attributable to equity holders of the Company		<u><u>(6,472)</u></u>	<u><u>(19,548)</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
Basic and diluted	10	<u><u>(0.39)</u></u>	<u><u>(1.15)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	<i>Notes</i>	As at 30 June 2023 HK\$'000 (unaudited)	As at 31 December 2022 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		204	300
Financial assets at fair value through other comprehensive income (“FVOCI”)		1,045	1,000
Deferred tax assets		2	2
		<u>1,251</u>	<u>1,302</u>
Current assets			
Trade and other receivables	11	45,454	46,937
Contract assets		14,770	11,014
Cash and bank balances		149,107	167,208
		<u>209,331</u>	<u>225,159</u>
Current liabilities			
Trade and other payables	12	21,617	30,374
Lease liabilities	13	129	516
Tax payable		209	312
Contract liabilities		1,390	1,550
		<u>23,345</u>	<u>32,752</u>
Net current assets		<u>185,986</u>	192,407
Total assets less current liabilities		<u>187,237</u>	<u>193,709</u>
Net assets		<u>187,237</u>	<u>193,709</u>
CAPITAL AND RESERVES			
Share capital	14	16,800	16,800
Reserves		170,437	176,909
Total equity		<u>187,237</u>	<u>193,709</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. GENERAL INFORMATION

Geotech Holdings Ltd. (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of the registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands, and its principal place of business is Unit 1920, 19/F, Cheung Kong Center, 2 Queen’s Road Central, Central, Hong Kong.

The Company is an investment holding company, and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in provision of construction and engineering services and property-related services.

The Company’s immediate and ultimate holding company is Star Merit Global Limited (“**Star Merit**”), a company incorporated in the British Virgin Islands (the “**BVI**”) and wholly owned by Mr. Chen Zhi (“**Mr. Chen**”). The ultimate controlling shareholder of the Company is Mr. Chen.

The condensed consolidated interim financial statements for the six months ended 30 June 2023 were approved for issue by the Board of directors (the “**Directors**”) on 24 August 2023.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2023 have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and Hong Kong Accounting Standards (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The condensed consolidated interim financial statements do not include all the information and disclosures required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2022.

The condensed consolidated interim financial statements are presented in thousands of units of Hong Kong dollars (“**HK\$’000**”), except when otherwise indicated.

3. ADOPTION OF NEW OR AMENDED HKFRSs

New or amended HKFRSs that are effective for annual period beginning on 1 January 2023

HKFRS 17	Insurance Contracts with related amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The adoption of these new and amended HKFRSs had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

The Group's principal activities are disclosed in note 1 to the condensed consolidated interim financial statements.

Revenue recognised for the six months ended 30 June 2023 and 2022 are as follows:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Construction and engineering services	58,831	165,364
Property-related services	4,166	3,887
	62,997	169,251

All of the performance obligations are satisfied over time.

(b) Segment information

The Group's operating activities are attributable to construction and engineering services and property-related services. The Group organised its business units based on its segment purposes and the internal management reports are prepared in accordance with accounting policies which conform to HKFRSs, which is regularly reviewed by the executive Directors, being the Chief Operating Decision Maker ("CODM"), for the purposes of resource allocation and assessment of segment performance. The CODM has identified construction and engineering services and property-related services as reportable segments.

For the six months ended 30 June 2023 (unaudited)

	Construction and engineering services	Property- related services	Total
	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue			
– From external customers	58,831	4,166	62,997
Reportable segment results (Note)	(3,284)	637	(2,647)
Unallocated corporate income			894
Unallocated corporate expenses			(4,711)
Loss before income tax			(6,464)

Note:

	Construction and engineering services <i>HK\$'000</i>	Property- related services <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment results				
– Bank interest income	265	7	893	1,165
– Depreciation of non-financial assets	(109)	(4)	(1)	(114)
– Net loss on disposal of plant and equipment	(3)	–	–	(3)
– Finance costs	(8)	–	–	(8)
	<u>265</u>	<u>7</u>	<u>893</u>	<u>1,165</u>

Other segment item

Additions to non-current segment assets	<u>21</u>	<u>–</u>	<u>–</u>	<u>21</u>
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As at 30 June 2023 (unaudited)

	Construction and engineering services <i>HK\$'000</i>	Property- related services <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	103,672	5,676	101,234	210,582
Reportable segment liabilities	<u>22,961</u>	<u>244</u>	<u>140</u>	<u>23,345</u>

For the six months ended 30 June 2022 (unaudited)

	Construction and engineering services <i>HK\$'000</i>	Property- related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue			
– From external customers	<u>165,364</u>	<u>3,887</u>	<u>169,251</u>
Reportable segment results (Note)	<u>(15,994)</u>	<u>1,273</u>	<u>(14,721)</u>
Unallocated corporate income			81
Unallocated corporate expenses			<u>(4,599)</u>
Loss before income tax			<u>(19,239)</u>

Note:

	Construction and engineering services <i>HK\$'000</i>	Property- related services <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment results				
– Bank interest income	40	–	57	97
– Depreciation of non-financial assets	(320)	(4)	(4)	(328)
– Impairment under ECL allowance on other receivables	(13,855)	–	–	(13,855)
– Net gain on disposal of plant and equipment	21	–	–	21
– Finance costs	(26)	–	–	(26)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Other segment item

Additions to non-current segment assets	<u>73</u>	<u>–</u>	<u>–</u>	<u>73</u>
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As at 31 December 2022 (audited)

	Construction and engineering services <i>HK\$'000</i>	Property- related services <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	119,160	5,199	102,102	226,461
Reportable segment liabilities	<u>31,098</u>	<u>351</u>	<u>1,303</u>	<u>32,752</u>

Geographical information

The Group's revenue from external customers based on the location of the operation is derived mainly in Hong Kong (place of domicile). Most non-current assets of the Group based on the location of the assets are located in Hong Kong. Accordingly, no segment analysis by geographical information is presented.

Information about major customers

Revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Construction and engineering services segment		
Customer A	12,938	21,485
Customer B	<u>30,090</u>	<u>87,090</u>

(c) Disaggregation of revenue from type of projects

For the six months ended 30 June 2023 (unaudited)

	Construction and engineering services <i>HK\$'000</i>	Property- related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Private sector project	1,423	4,166	5,589
Public sector project	<u>57,408</u>	<u>–</u>	<u>57,408</u>

For the six months ended 30 June 2022 (unaudited)

	Construction and engineering services <i>HK\$'000</i>	Property- related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Private sector project	8,647	3,887	12,534
Public sector project	<u>156,717</u>	<u>–</u>	<u>156,717</u>

5. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Consultancy fee income	205	157
Rental income from lease of machinery	40	20
Safety consultancy income	69	136
Bank interest income	1,165	97
Net gain on disposal of plant and equipment	–	21
Net exchange gain	90	122
Government grant (<i>note (i)</i>)	–	112
Labour charges income	354	655
Sundry income (<i>note (ii)</i>)	<u>1,135</u>	<u>965</u>
	<u>3,058</u>	<u>2,285</u>

Notes:

- (i) Government grant represented the Employment Support Scheme under the second round of the Anti-epidemic Fund launched by the Government of Hong Kong Special Administrative Region to provide time-limited financial support to employers to retain employees who may otherwise be made redundant.
- (ii) During the six months ended 30 June 2023, sundry income mainly represented handling charges of approximately HK\$1,065,000 (six months ended 30 June 2022: approximately HK\$738,000) paid by subcontractors requesting our assistance in the procurement of construction materials for our construction contracts.

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Finance charge on lease liabilities	<u>8</u>	<u>26</u>

7. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Loss before income tax is stated after charging/(crediting):		
(a) Staff costs (including Directors' remuneration)		
Salaries, fees, wages and allowances	14,575	12,470
Retirement scheme contributions	<u>451</u>	<u>446</u>
Staff costs (including Directors' remuneration) <i>(note)</i>	<u>15,026</u>	<u>12,916</u>
(b) Other items		
Depreciation, included in:		
Direct costs		
– Owned assets	30	107
Administrative expenses		
– Owned assets	84	147
– Right-of-use assets	<u>–</u>	<u>74</u>
	<u>114</u>	<u>328</u>
Short term leases	219	192
Subcontracting charges (included in direct costs)	52,013	157,772
Net loss/(gain) on disposal of plant and equipment	3	(21)
Auditors' remuneration	–	190
Impairment under ECL allowance on other receivables	–	13,855
Net exchange gain	<u>(90)</u>	<u>(122)</u>

Note: Staff costs (including Directors' remuneration)

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Direct costs	6,646	5,628
Administrative expenses	<u>8,380</u>	<u>7,288</u>
	<u>15,026</u>	<u>12,916</u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Provision for Hong Kong Profits Tax		
– Current tax	<u>53</u>	<u>105</u>
Total income tax expense	<u><u>53</u></u>	<u><u>105</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in or derived from Hong Kong for the six months ended 30 June 2023 and 2022, except that the Group's qualified entity is calculated in accordance with the two-tiered profits tax rates regime and the profits tax of other group entities in Hong Kong which are not qualified for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%.

No provision for overseas profits tax has been made as the Group had no assessable profits generated in overseas operation during the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

9. DIVIDENDS

No dividend was paid or declared by the Company during the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

10. LOSS PER SHARE

The calculation of basic loss per share attributable to equity holders of the Company is based on the following:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss		
Loss for the period attributable to equity holders of the Company	<u><u>(6,517)</u></u>	<u><u>(19,344)</u></u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares	<u><u>1,680,000</u></u>	<u><u>1,680,000</u></u>

The calculation of the basic loss per share for the six months ended 30 June 2023 is based on the loss for the period attributable to equity holders of the Company of HK\$6,517,000 (six months ended 30 June 2022: HK\$19,344,000) and the weighted average number of ordinary shares of 1,680,000,000 in issue during the period (six months ended 30 June 2022: 1,680,000,000).

There were no dilutive potential ordinary shares during the six months ended 30 June 2023 and 2022 and therefore, diluted loss per share equals to basic loss per share.

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2023 HK\$'000 (unaudited)	As at 31 December 2022 HK\$'000 (audited)
Trade receivables	3,053	3,542
Less: impairment under ECL allowance	<u>(60)</u>	<u>(60)</u>
	2,993	3,482
Retention receivables	13,157	12,759
Other receivables <i>(note (i))</i>	17,782	19,293
Prepayment	18,454	18,802
Utility and other deposits	905	1,133
Less: impairment under ECL allowance	<u>(9,338)</u>	<u>(9,338)</u>
	40,960	42,649
Amount due from joint operator	18,024	17,329
Less: impairment under ECL allowance <i>(note (ii))</i>	<u>(16,523)</u>	<u>(16,523)</u>
	1,501	806
	45,454	46,937

The Directors considered the fair values of trade and other receivables are not materially different from their carrying amounts, because their balances have short maturity periods on their inception.

Notes:

- (i) Other receivables include materials and expenses of slope work contracts paid on behalf of subcontractors, for which expenses are recharged to subcontractors.
- (ii) During the period ended 30 June 2022, a company winding up petition was filed against a joint operator of the Group. The joint bank account with the joint operator of approximately HK\$547,000 attributable to the Group as at 30 June 2022 was being frozen. The financial status of the joint operator has remained an uncertain position, the management of the Group conducted an impairment assessment on amount due from joint operator, and recognised an impairment under ECL allowance on amount due from joint operator of approximately HK\$13,855,000 for the six months ended 30 June 2022.

During the period ended 30 June 2023, winding up petition against joint operator was withdrawn and there are no winding up petitions outstanding against joint operator at the end of the reporting period.

Trade receivables

Based on the invoice dates, the ageing analysis of the trade receivables, net of impairment under ECL allowance, is as follows:

	As at 30 June 2023 <i>HK\$'000</i> (unaudited)	As at 31 December 2022 <i>HK\$'000</i> (audited)
0 – 30 days	2,186	3,137
31 – 60 days	807	251
61 – 90 days	–	–
Over 90 days	–	94
	<u>2,993</u>	<u>3,482</u>

Retention receivables

Retention receivables represent certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated on a prescribed percentage of the contract sum.

The retention receivables were expected to be recovered/settled as follows:

	As at 30 June 2023 <i>HK\$'000</i> (unaudited)	As at 31 December 2022 <i>HK\$'000</i> (audited)
Due within one year	4,411	1,713
Due after one year	8,746	11,046
	<u>13,157</u>	<u>12,759</u>

Retention receivables are interest-free and repayable approximately one year after the expiry of the maintenance period of construction projects.

At the end of the reporting date, apart from the amount due from joint operator as disclosed in note 11(ii), the Group also reviewed trade receivables, retention receivables and other receivables for evidence of impairment on collective basis. Based on assessment of expected credit losses, no additional impairment under ECL allowance has been recognised for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

12. TRADE AND OTHER PAYABLES

	As at 30 June 2023 HK\$'000 (unaudited)	As at 31 December 2022 HK\$'000 (audited)
Trade payables (<i>note (i)</i>)	6,447	7,108
Retention payables (<i>note (ii)</i>)	12,023	15,229
Accruals and other payables	3,147	8,037
	<u>21,617</u>	<u>30,374</u>

All amounts are short-term and hence, the carrying values of the Group's trade payables, retention payables and accruals and other payables are considered to be a reasonable approximation of fair value.

Notes:

- (i) Payment terms granted by subcontractors and suppliers are 14 days and 30 to 60 days respectively from the invoice date of the relevant purchases.
- (ii) Retention payables are interest-free and settled in accordance with the terms of the respective contracts.

Trade payables

Ageing analysis of trade payables based on the invoice dates is as follows:

	As at 30 June 2023 HK\$'000 (unaudited)	As at 31 December 2022 HK\$'000 (audited)
0 – 30 days	4,548	2,911
31 – 60 days	571	71
61 – 90 days	199	986
Over 90 days	1,129	3,140
	<u>6,447</u>	<u>7,108</u>

13. LEASE LIABILITIES

The analysis of the Group's lease liabilities is as follows:

	As at 30 June 2023 <i>HK\$'000</i> (unaudited)	As at 31 December 2022 <i>HK\$'000</i> (audited)
Total minimum lease payments:		
Within one year	130	525
Future finance charges	<u>(1)</u>	<u>(9)</u>
Present value of lease obligation	<u>129</u>	<u>516</u>
Present value of minimum lease payments:		
Within one year	129	516
Less: portion due within one year included under current liabilities	<u>(129)</u>	<u>(516)</u>
Portion due after one year included under non-current liabilities	<u>-</u>	<u>-</u>

As at 31 December 2022, the Group had lease arrangements for motor vehicles. These lease periods are for 2 to 3 years. At the end of the lease term, the Group has the option to purchase the leased motor vehicles at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease. None of the leases includes contingent rentals.

As at 30 June 2023, 1 (31 December 2022 (audited): 2) of the leases of office or workshop premise is for own use for 2 years (31 December 2022 (audited): 1.5 to 2 years). The Group makes fixed payments during the contract periods.

The leases are effectively secured by the underlying assets as the rights to the leased assets would be converted to the lessor in the event of default by repayment by the Group.

During the six months ended 30 June 2023, the total cash outflows for the leases are HK\$614,000 (six months ended 30 June 2022: HK\$799,000).

14. SHARE CAPITAL

	As at 30 June 2023		As at 31 December 2022	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
As at 1 January 2022, 31 December 2022, 1 January 2023 (audited) and 30 June 2023 (unaudited)	<u>4,000,000,000</u>	<u>40,000</u>	<u>4,000,000,000</u>	<u>40,000</u>
Issued and fully paid:				
As at 1 January 2022, 31 December 2022, 1 January 2023 (audited) and 30 June 2023 (unaudited)	<u>1,680,000,000</u>	<u>16,800</u>	<u>1,680,000,000</u>	<u>16,800</u>

15. RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

The emoluments of the Directors and senior management of the Company, who represent the key management personnel during the six months ended 30 June 2023 and 2022 are as follows:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Salaries, fees, wages and allowances	2,130	2,604
Retirement scheme contributions	<u>36</u>	<u>37</u>
	<u>2,166</u>	<u>2,641</u>

(b) Related party transactions

Summary of the related party transactions carried out by the Group during the six months ended 30 June 2023 and 2022 are as follows:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Property management consultancy services income from Cheer Capital Limited (<i>note (i)</i>)	<u>2,280</u>	<u>2,249</u>

Summary of balance with related parties as at 30 June 2023 and 31 December 2022 are as follows:

	As at 30 June 2023 HK\$'000 (unaudited)	As at 31 December 2022 HK\$'000 (audited)
Bank deposits to Prince Bank Plc. (<i>note (ii)</i>)		
– balance	43	222
– maximum balance during the six months ended 30 June 2023 (unaudited) and the year ended 31 December 2022 (audited)	<u>222</u>	<u>259</u>

Notes:

- (i) A company indirectly and wholly-owned by Mr. Chen, an executive Director and the controlling shareholder of the Company.
- (ii) A company directly controlled by Mr. Chen, an executive Director and the controlling shareholder of the Company.

16. CONTINGENT LIABILITIES

As at 30 June 2023 and 31 December 2022, the Group has been involved in a number of claims, litigations and potential claims against the Group regarding the employees' compensation and common law personal injury. Based on the information available, the Board considered that the Group has sufficient insurance coverage on any liability arising from those claims, litigations and potential claims.

As at 31 December 2022, Geotech Engineering was a defendant in four legal proceedings commenced by two subcontractors. During the period ended 30 June 2023, settlement was reached with subcontractors, and discontinuance of such legal proceedings have been filed into courts subsequent to the end of the reporting period.

As such, the Board is of the view that such claims, litigations and potential claims would not cause any material adverse impact on the operation and financial position of the Group and no provision is required to be made in the condensed consolidated interim financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group was principally engaged in the provision of (i) construction and engineering services; and (ii) property-related services for the six months ended 30 June 2023.

Construction and Engineering Services

Geotech Engineering Limited (“**Geotech Engineering**”), an indirect wholly-owned subsidiary of the Company, is principally engaged in construction and engineering services and a leading slope works contractor in Hong Kong with over 20 years of experience in the civil engineering industry. It is an approved specialist contractor included in the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau (the “**DB**”) under the categories of “Landslip preventive/remedial works to slopes/retaining walls” (the “**LPM**”) (confirmed status) and “Ground investigation field work” (Group I status) and also an approved contractor included in the List of Approved Contractors for Public Works under the category of “Site formation” (Group B probationary status). In addition, Geotech Engineering is also registered as a specialist contractor in the categories of site formation works and ground investigation field works with the Building Authority.

Between January 2022 and March 2022, certain registrations/licences of Geotech Engineering were suspended as a result of the fatal accident occurred in March 2020 as disclosed in note 17 to the condensed consolidated interim financial statements in the interim results announcement published by the Company on 25 August 2020. Geotech Engineering was under regulatory actions from (i) the Construction Industry Council to suspend its registration as a registered subcontractor under the category of general civil works with specialty in geotechnical works for a period of six months with effect from 6 July 2021; and (ii) the DB to voluntarily refrain from tendering for public works contracts under the LPM category for a period of eight months with effect from 4 August 2021 (together the “**Suspension**”). Further details of the Suspension were disclosed in the announcements published by the Company on 5 July 2021 and 30 July 2021. The Suspensions from the above authorities were released in January and April 2022 respectively.

Total revenue of construction and engineering services for the six months ended 30 June 2023 amounted to approximately HK\$58.8 million, representing a decrease of approximately 64.4% as compared with total revenue of approximately HK\$165.4 million for the six months ended 30 June 2022. Such decrease in revenue was mainly due to the reduction in new contracts being awarded to the Group during the period as the sector has become extremely competitive. Revenue in this segment continued to be deriving principally from slope works, ground investigation field works and road and drainage works, with public sector projects including those from the Landslip Prevention and Mitigation Programme (the “**Programme**”)* commissioned by the Civil Engineering and Development Department of the Government of the Hong Kong Special Administrative Region (“**HKSAR**”), other government departments and statutory bodies, amounted to approximately 97.6% of total revenue in this segment (six months ended 30 June 2022: approximately 94.8%).

During the six months ended 30 June 2023, Geotech Engineering has continued its strategy for construction and engineering services in Hong Kong through a variety of operational initiatives:

- in response to keen market competition, although securing new contracts had been difficult during the period, the Group has continued with its competitive pricing strategy during the period in order to maintain the Group's competitiveness in the slope works sector in particular;
- in order to undertake more construction projects given Geotech Engineering's capacity, it has continued to focus on project management role and our collaboration with subcontractors by subcontracting a substantial part of works required;
- other than slope works, the Group has continued to seek opportunities to diversify into other types of civil engineering works by tendering projects jointly with partners for contracts which involve various work categories (especially for site formation works and ground investigation field works). The Directors consider that this strategy is beneficial to the Group's diversification in construction and engineering services in Hong Kong.

As at 30 June 2023, the Group had 46 construction contracts on hand, including contracts in progress and contracts yet to commence (31 December 2022: 43 construction contracts) with a total outstanding contract sum of approximately HK\$176.7 million (31 December 2022: approximately HK\$66.0 million) and these contracts are expected to be completed during or before 2027.

Property-related Services

The market environment for the property-related services in Hong Kong was still challenging for the reporting period given the uncertainties in the external economic and business environment during the economic recovery cycle. During the six months ended 30 June 2023, the Group recorded revenue of approximately HK\$4.2 million (six months ended 30 June 2022: approximately HK\$3.9 million) for the provision of property management consultancy services, of which, approximately HK\$2.3 million of property management consultancy services (six months ended 30 June 2022: approximately HK\$2.2 million) was generated from continuing connected transactions. Details of the continuing connected transactions are set out in the Company's announcement dated 28 December 2022.

OUTLOOK

Apart from focusing on construction and engineering services and property-related services, the Group will continue to explore other business expansion in order to enhance the future development and strengthen the revenue bases of the Group. The Board believes that the Group's strategy to diversify its business could provide a better return to the shareholders of the Company (the "**Shareholders**").

In line with the Board's strategy as stated above, the Group is taking a cautious approach for future development:

- having considered the industry conditions of the construction and engineering services in Hong Kong, the Group will closely monitor the market and respond to changes in market conditions. Going forward, in order to broaden the types of works in the construction and engineering sector other than slope works, Geotech Engineering strives to partner with potential partner(s) for tendering projects in various types of civil engineering works (especially for site formation works and ground investigation field works);
- taking into consideration the market circumstances in Cambodia, the Group will take a cautious approach in the development of our construction and decoration business and exploration of other business opportunities in Cambodia in the remaining period in 2023;
- although our property-related services are expected to remain challenging in the coming years given the uncertainties in the external economic and business environment, by leveraging our management experiences and knowledge gained in the industry, the Group will strive to seek various opportunities in property-related services; and
- to lower the risk profile of the Group and to improve profitability, the Board may also seek to diversify and explore other investment opportunities in the future.

The Group will continue to monitor the situation and assess the market risks and uncertainties during the economic recovery cycle and strive to take strict measures to mitigate any potential adverse impact on the Group.

FINANCIAL REVIEW

Revenue

The Group's total revenue decreased by approximately HK\$106.3 million or approximately 62.8% from approximately HK\$169.3 million for the six months ended 30 June 2022 to approximately HK\$63.0 million for the six months ended 30 June 2023. The Group's total revenue for the period was contributed by the construction and engineering services and property-related services.

(a) Construction and Engineering Services

The Group's revenue generated from the construction and engineering services decreased by approximately HK\$106.6 million or approximately 64.4% from approximately HK\$165.4 million for the six months ended 30 June 2022 to approximately HK\$58.8 million for the six months ended 30 June 2023. Such decrease in revenue was mainly due to the reduction in new contracts being awarded to the Group during the period as the sector has become extremely competitive.

(b) Property-related Services

The Group's revenue from property-related services increased by approximately HK\$0.3 million from approximately HK\$3.9 million for the six months ended 30 June 2022 to approximately HK\$4.2 million for the six months ended 30 June 2023. Such increase was mainly due to the increase in consultancy fee from renewals of agreements for provision of property management consultancy services in 2022. Included in the revenue was continuing connected transactions amounting to approximately HK\$2.3 million (six months ended 30 June 2022: approximately HK\$2.2 million).

Gross Profit and Gross Profit Margin

The Group's total gross profit for the six months ended 30 June 2023 amounted to approximately HK\$1.1 million, representing a decrease of approximately 43.0% compared with approximately HK\$2.0 million for the six months ended 30 June 2022. The Group's total gross profit margin for the six months ended 30 June 2023 was approximately 1.8%, as compared with approximately 1.2% for the six months ended 30 June 2022.

(a) Construction and Engineering Services

The gross profit from construction and engineering services for the six months ended 30 June 2023 amounted to approximately HK\$0.2 million, representing a decrease of approximately 62.4% as compared with approximately HK\$0.6 million for the six months ended 30 June 2022. The gross profit margin from construction and engineering services for the six months ended 30 June 2023 was approximately 0.4%, as compared with approximately 0.3% for the six months ended 30 June 2022. The gross profit margin remained stable for the six months ended 30 June 2023 and 2022, while the decrease in gross profit for the period ended 30 June 2023 was in line with the decrease in revenue from construction and engineering services as mentioned above.

(b) Property-related Services

The gross profit from property-related services for the six months ended 30 June 2023 amounted to approximately HK\$0.9 million, representing a decrease of approximately HK\$0.5 million as compared with approximately HK\$1.4 million for the six months ended 30 June 2022. The gross profit margin for the six months ended 30 June 2023 was approximately 21.7%, as compared with approximately 35.8% for the six months ended 30 June 2022. The decrease in gross profit and gross profit margin was mainly due to additional staffs recruited for capturing the market opportunities.

Other Income

Other income mainly included bank interest income, materials charges income, consultancy fee income, labour charges income and sundry income. For the six months ended 30 June 2023, other income amounted to approximately HK\$3.1 million (six months ended 30 June 2022: approximately HK\$2.3 million). The increase in other income was mainly due to the increase in bank interest income of approximately HK\$1.1 million, which was partially offset by the decrease in labour charges income of approximately HK\$0.3 million. Further details are set out in note 5 to the condensed consolidated interim financial statements in this announcement.

Administrative Expenses

Administrative expenses primarily comprise staff costs, depreciation and legal and professional fees. The administrative expenses of the Group for the six months ended 30 June 2023 amounted to approximately HK\$10.6 million, representing an increase of approximately 10.6% compared with approximately HK\$9.6 million for the six months ended 30 June 2022. The increase in administrative expenses was largely resulting from the additional management staffs recruited during the economic recovery cycle.

Impairment under Expected Credit Loss Allowance on Other Receivables

In accordance with HKFRS 9, the Group makes allowances on items subject to expected credit losses (“ECL”) (including trade and other receivables) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation. An ECL assessment is performed at each reporting date using a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group also performs ECL assessment of whether a financial instrument’s credit risk has increased significantly since initial recognition.

An impairment under ECL allowance on other receivables (including material costs, subcontracting charges and expenses paid on behalf of a joint operator) of approximately HK\$13.9 million was recognised during the six months ended 30 June 2022 due to the significant increase in credit risk arising from such joint operator which has financial difficulties. The Group holds on-going discussions with the said joint operator, and may pursue legal action (if necessary) for recovery of payment. Further details of the impairment under ECL allowance are set out in note 11 to the condensed consolidated financial statements in this announcement.

Finance Costs

Finance costs represent finance charge on lease liabilities. Finance costs remained stable for the six months ended 30 June 2023 and 2022.

Income Tax Expense

Income tax expense of approximately HK\$53,000 (six months ended 30 June 2022: approximately HK\$105,000) was recognised for the six months ended 30 June 2023. The decrease in income tax expense was in line with the decrease in revenue.

Net Loss

Net loss for the six months ended 30 June 2023 amounted to approximately HK\$6.5 million, as compared to the net loss of approximately HK\$19.3 million for the six months ended 30 June 2022. The decrease in net loss was mainly due to the decrease in the recognition of impairment under ECL allowance on other receivables (including material costs, subcontracting charges and expenses paid on behalf of a joint operator) for the period while impairment under ECL allowance of approximately HK\$13.9 million related to such joint operator which had financial difficulties was recognised for the six months ended 30 June 2022. As a result, the Group's net loss margin for the six months ended 30 June 2023 was approximately 10.3% (six months ended 30 June 2022: approximately 11.4%).

Interim Dividend

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

Liquidity, Financial Resources and Capital Structure

As at 30 June 2023, the Company's issued share capital was HK\$16.8 million and the number of issued ordinary shares of the Company (the "Shares") was 1,680 million with par value of HK\$0.01 each.

As at 30 June 2023, the Group had total cash and bank balances of approximately HK\$149.1 million (31 December 2022: approximately HK\$167.2 million). The Group had no bank borrowing as at 30 June 2023 (31 December 2022: nil). Other borrowings of the Group as at 30 June 2023 were lease liabilities of approximately HK\$0.1 million (31 December 2022: approximately HK\$0.5 million). Details of lease liabilities are set out in note 13 to the condensed consolidated interim financial statements in this announcement. All borrowings were denominated in Hong Kong dollars ("HK\$"). The interest rates on lease liabilities were charged at fixed rates with effective rates arranging from 4.23% to 5.29% for the six months ended 30 June 2023 (six months ended 30 June 2022: from 4.23% to 5.29%). The Group did not carry out any interest rate hedging policy.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements all the time.

Gearing Ratio

Gearing ratio is calculated by dividing total borrowings by total equity as at the period-end date and multiplied by 100%. As at 30 June 2023, the total borrowings of the Group were lease liabilities of approximately HK\$0.1 million (31 December 2022: approximately HK\$0.5 million). The gearing ratio of the Group as at 30 June 2023 was approximately 0.1% (31 December 2022: approximately 0.3%). The decrease in gearing ratio was mainly due to a lower total indebtedness level from repayment of lease liabilities of the Group.

Pledge of Assets

As at 30 June 2023, the carrying amount of the Group's motor vehicles of approximately HK\$38,000 was pledged under leases (31 December 2022: approximately HK\$62,000).

Capital Structure

There has been no change in the capital structure of the Group since the listing (the "**Listing**") of the Company's shares on the Main Board of the Stock Exchange. The share capital of the Company only comprises ordinary shares.

Foreign Exchange Risk

The Group mainly operates in Hong Kong. Most of the operating transactions and revenue are settled in HK\$ and the assets and liabilities are primarily denominated in HK\$. The Group's exposures to foreign exchange mainly arise from its cash and bank deposits denominated in the United States Dollars ("**US\$**") amounting to approximately HK\$36.8 million as at 30 June 2023 (31 December 2022: approximately HK\$36.5 million). Most of the operating transactions from the Group's operation in Cambodia are settled in US\$.

However, HK\$ is pegged to US\$ under the Linked Exchange Rate System, the Group is not exposed to any significant foreign exchange risk against US\$ and therefore has not entered into any derivatives agreement nor committed to any financial instrument to hedge its foreign exchange exposure during the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

Significant Investment Held, Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

During the six months ended 30 June 2023, the Group did not have any significant investments held, material acquisitions and disposals of subsidiaries, associated companies and joint ventures.

Employees and Remuneration Policies

As at 30 June 2023, the Group's payroll included 51 full-time employees (31 December 2022: 62 full-time employees). For the six months ended 30 June 2023, total staff costs (including Directors' remuneration) amounted to approximately HK\$15.0 million (six months ended 30 June 2022: approximately HK\$12.9 million). Total staff costs comprised salaries, wages, Directors' fees and allowances, discretionary bonuses and retirement scheme contributions. In order to attract and retain high quality staff and to enable smooth operation within the Group, the remuneration policy of the Group's employees is being reviewed periodically to ensure that the salary and benefit levels of the employees of the Group are competitive (with reference to market conditions, individual qualifications, position, performance and experience). The Group continues to provide adequate job training to the employees to equip them with practical knowledge and skills. Apart from the defined contribution retirement plan in Hong Kong and Cambodia and job training programs, salary increments and discretionary bonuses are being awarded to employees according to the assessment of individual performance and market situation.

Future Plans for Material Investments or Capital Assets

Save as disclosed under the section headed "Use of Net Proceeds from the listing of shares of the Company on 12 October 2017" in this announcement, the Group did not have other future plans for material investments or capital assets as at 30 June 2023.

Capital Commitments

As at 30 June 2023, the Group had no capital commitments (31 December 2022: nil).

Contingent Liabilities

As at 30 June 2023 and 31 December 2022, the Group has been involved in a number of claims, litigations and potential claims against the Group regarding the employees' compensation and common law personal injury. Based on the information available, the Board considered that the Group has sufficient insurance coverage on any liability arising from those claims, litigations and potential claims.

As at 31 December 2022, Geotech Engineering was a defendant in four legal proceedings commenced by two subcontractors. During the period ended 30 June 2023, settlement was reached with subcontractors, and discontinuance of such legal proceedings have been filed into courts subsequent to the end of the reporting period.

As such, the Board is of the view that such claims, litigations and potential claims would not cause any material adverse impact on the operation and financial position of the Group and no provision is required to be made in the condensed consolidated interim financial statements.

Use of Net Proceeds from the listing of shares of the Company on 12 October 2017 (the “Listing”)

Net proceeds from the Listing (“**Net Proceeds**”) amounted to approximately HK\$72.8 million. As at 1 January 2023 and 30 June 2023, a total amount of approximately HK\$63.2 million out of the Net Proceeds had been used by the Group and approximately HK\$9.6 million remained unused. As at 30 June 2023, the unused amount of Net Proceeds was placed in interest-bearing deposits with licensed banks in Hong Kong. The Group will gradually apply the remaining Net Proceeds for the acquisition of site facilities and equipment (being consistent with the purposes as set out in prospectus of the Company dated 28 September 2017 (the “**Prospectus**”)) in accordance with actual business needs and use up the remaining Net Proceeds by the end of 2023 as previously disclosed in the section headed “Future Plans and Use of Proceeds” to the Prospectus and the adjusted timeline as disclosed in the announcement of the Company dated 15 June 2023. Details are as follows:

	Planned use of Net Proceeds remained unused as at 1 January 2023 HK\$’000	Actual use of Net Proceeds during the six months ended 30 June 2023 HK\$’000	Unused amount of Net Proceeds as at 30 June 2023 HK\$’000	Expected timeline of full utilisation of the unutilised proceeds
Acquisition of the site facilities and equipment	<u>9,649</u>	<u>13</u>	<u>9,636</u>	By the end of 2023

Subsequent to 30 June 2023 and up to the date of this announcement, approximately HK\$0.6 million out of the net proceeds had been used up by the Group in a planned manner as aforementioned and approximately HK\$9.0 million remained unused.

Compliance with the Corporate Governance Code

The Company has adopted and complied with the applicable code provisions (the “**Code Provision(s)**”) as set out in the Corporate Governance Code (the “**CG Code**”) contained in Part 2 of Appendix 14 to the Listing Rules during the six months ended 30 June 2023. The Directors will periodically review the Company’s corporate governance policies and will propose any amendment, if necessary, to ensure compliance with the CG Code from time to time.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors’ securities transactions. Having made specific enquiries of the Directors, all Directors have confirmed that they have complied with the requirements of the Model Code during the six months ended 30 June 2023.

Share Option Scheme

The share option scheme was adopted by the Company on 21 September 2017 (the “**Share Option Scheme**”) and effective for a period of ten years to 20 September 2027. It is a share incentive scheme established to recognise and acknowledge the contributions that the eligible participants have or may have made to the Group. Pursuant to the Share Option Scheme, the Board may, as its discretion, offer to grant an option to any director, employee (full-time and part-time), advisor, consultant, supplier, customer, distributor, contractor, agent, business partner or service providers of the Group and to promote the success of the business of the Group.

Pursuant to the terms of the Share Option Scheme and in compliance with the provisions in Chapter 17 of the Listing Rules, the maximum number of Shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and all share option schemes of the Company shall not exceed 140,000,000 Shares, being 10% of the 1,400,000,000 Shares in issue as at 12 October 2017, being the date the Shares were listed on the Stock Exchange. The Company may issue a circular to the Shareholders and seek approval from the Shareholders in general meeting for refreshing the 10% limit such that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option schemes shall not exceed 10% of the total number of Shares in issue as at the date of the approval from the Shareholders.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme to eligible participants in any 12 months period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant, any further grant of options in excess of this 1% limit shall be subject to the approval of Shareholders in a general meeting.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant, which must be a trading day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five trading dates immediately preceding the date of grant; or (iii) the nominal value of a Share.

A share option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined and notified by the Board to the participant at the time of making an offer for the grant of share option.

The total number of securities available for issue under the Share Option Scheme, and all other share option schemes of the Company must not exceed 140,000,000 Shares, representing 8.33% of the total number of Shares as at the date of this announcement.

No share options have been granted under the Share Option Scheme since 21 September 2017. An offer of the grant of a share option shall be accepted by the eligible participants within a period of twenty-one days from the date of offer of grant of share option. The consideration paid by each grantee for the acceptance and grant of each share option is HK\$1.00, which has to be paid within twenty-one days.

There were no options outstanding as at 30 June 2023 (31 December 2022: nil) and no share options were granted, exercised, cancelled or lapsed during the six months ended 30 June 2023. For further details of the Share Option Scheme, please refer to the paragraph headed “D. Share Option Scheme” in Appendix IV to the Prospectus.

The Share Option Scheme was adopted before the effective date (being 1 January 2023) of the new Chapter 17 of the Listing Rules. The adoption date of the Share Option Scheme was 21 September 2017. As such, the Share Option Scheme (effective for a term of ten years commencing on the adoption date) shall remain valid and effective until 20 September 2027. The Company will comply with the new Chapter 17 in accordance with the transitional arrangement provided for the Share Option Scheme. Where any grant of the share options is proposed to be made to any person who is a connected person of the Company, the Company shall comply with the relevant provisions of the Listing Rules.

Purchase, Sale and Redemption of the Company's Listed Securities

No purchase, sale or redemption of the Company's listed securities was made by the Company or any of its subsidiaries during the six months ended 30 June 2023.

Competing Interests

None of the Directors, controlling shareholders of the Company nor their respective associates (as defined in the Listing Rules) had interests in any business which competes or is likely to compete, directly or indirectly, with the Group's businesses during the six months ended 30 June 2023.

Events After the Reporting Period

The Group does not have any material subsequent event after the reporting period and up to the date of this announcement.

Audit Committee

The interim results of the Group for the six months ended 30 June 2023 have not been audited or reviewed by the independent auditors of the Company. The audit committee of the Company has reviewed the Group's unaudited condensed consolidated results for the six months ended 30 June 2023 and discussed with the management of the Company on the accounting principles and practices, financial reporting process, risk management and internal control adopted by the Group with no disagreement by the audit committee of the Company.

Publication of Interim Results and Interim Report

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.geotech.hk). The interim report of the Company for the six months ended 30 June 2023 will be dispatched to Shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Geotech Holdings Ltd.

Chen Zhi

Chairman and executive Director

Hong Kong, 24 August 2023

As at the date of this announcement, the Board comprises Mr. Chen Zhi as chairman and executive Director, Mr. Qiu Dong as executive Director, and Mr. Chan Tsang Mo, Mr. Shen Zejing and Mr. So Wai Man as independent non-executive Directors.