The Hong Kong Building and Loan Agency Limited

香港建屋貸款有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 145)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2018

References are made to the annual results announcement and annual report of The Hong Kong Building and Loan Agency Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**") for the year ended 31 December 2018 published by the Company on 29 March 2019 and 29 April 2019 respectively (together, the "**2018 Annual Results**"). Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the 2018 Annual Results.

The board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide certain additional information in relation to the 2018 Annual Results.

BASIS FOR DISCLAIMER OF OPINION

The auditors of the Company (the "**Auditors**") expressed a disclaimer of opinion (the "**Audit Qualification**") of material uncertainties relating to the going concern basis in the 2018 Annual Results. The following are two major bases for the disclaimer of opinion of the Auditors.

(i) Material uncertainties relating to the going concern basis

As disclosed in the 2018 Annual Results, the Group had total liabilities of approximately HK$1,162 million in which approximately HK$127 million was the carrying amount of the promissory notes (the "**Promissory Notes**") and approximately HK$945 million was the carrying amount of outstanding convertible bonds (the "**Convertible Bonds**").

The Promissory Notes were not settled by the Group when they matured on 31 December 2018 and this default in repayment triggered the cross default on the Company's outstanding Convertible Bonds. As a result, the Group was in net current liability position of HK$1,076,923,000 as at 31 December 2018. Furthermore, the Group was in net liability position of HK$880,991,000 as at 31 December 2018.

(ii) The carrying value of the intangible assets

As disclosed in the 2018 Annual Results, the Group recorded impairment loss on goodwill of approximately HK$432 million and impairment loss on intangible assets of approximately HK$541 million (together, the "**Impairment Losses**").

The underlying business reasons and events leading to the Impairment Losses were mainly due to the external factors as disclosed in the 2018 Annual Results, including the (a) slow-down in the PRC economy that weakened the enterprise demand; (b) the fierce competitions within the energy saving business; (c) difficulties in getting financing within the energy saving industry; and (d) continuous lowering of government subsidies. These factors caused an adverse impact on the Group's performance in the financial year 2018.

The Auditors were of the view that the Group was facing heavy financial pressure due to the outstanding Promissory Notes and Convertible Bonds, as well as other financial and liquidity issues facing the Group as described in their auditors' report. After further discussions with the Auditors, the management of the Company (the "**Management**") agreed to lower the 10 years' financial budgets of the operating subsidiaries being used in the value in use model compared the one used in the financial year 2017. As a result, the Group recorded an impairment loss on goodwill and intangible assets of approximately HK$1 billion.

The Auditors also explained to the Management that their audit testing of the recoverable amount of the intangible assets was also affected by the existence of material uncertainties that might cast significant doubt on the Group's ability to continue as a going concern. As disclosed in the "**Basis for disclaimer of opinion**" section of the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**"), the recoverable amount of the intangible assets was estimated by reference to the value in use of the design and provision of energy saving solutions cash generating unit (the "**CGU**") in the energy solution business segment to which the intangible assets belonged. The value in use of the CGU was estimated based on cash flow projections of the CGU, the preparation of which involved the Management making certain key assumptions, including the assumption that the Group would be able to obtain additional working capital required for payment by the CGU of the costs of design, procurement and installation of the CGU's proprietary UPPC Systems as well as maintenance costs over the contract periods for the new contracts included in the cash flow projections. The CGU would not be able to meet the cash flow projections if the Group were to be unable to obtain the additional working capital due to the factors that gave rise to the material uncertainties about the Group's ability to continue as a going concern, in which event adjustments would have to be made to further write down the carrying value of the intangible assets.

Below is a comparison table showing the parameters adopted by the valuer in 2017 and 2018 valuations, respectively:

	2017 valuation	**2018 valuation**
Risk-free rate	3.92%	3.31%
Cost of equity	19.55%	23.96%
Discount rate (pre-tax)	18.09%	20.34%
Terminal growth rate	3%	3%

THE VIEW OF THE MANAGEMENT AND THE AUDIT COMMITTEE

As disclosed in the 2018 Annual Report, the Board adopted the going concern basis in the preparation of the 2018 Annual Results and have implemented certain measures including (i) considering to raise new capital by fund raising activities; (ii) negotiation on implementation of the scheme of arrangement (the "**Scheme**"); and (iii) implementation of operation plans to control costs and generate adequate cash flows from the Group's operations.

The Management and the audit committee of the Company agree with the view and concerns of the Auditors in relation to the Audit Qualification. The Board understand that, the Auditors were of the view that the Group was facing heavy financial pressure due to the Group's outstanding liabilities. The Auditors have extended concerns on whether the Group will be able to secure enough financial resources to operate efficiently. If the Scheme can be successfully proceeded, all liabilities under the Convertible Bonds and Promissory Notes can be settled and discharged. Debt of the Company can be reduced and it is expected that the Company will turn from a position of net deficit to positive net asset value. The Management believed that if the Group's outstanding Promissory Notes and Convertible Bonds could be settled via the Scheme, the Group will have sufficient financial resources (i.e. cashflow generated from the businesses and the account receivables from the completed projects) to support its operation as well as the future growth. The Company will negotiate with the Auditors to revisit and consider whether it is appropriate to remove the Audit Qualification in relation to going concern based on, including but not limited to the abovementioned factors.

By order of the Board
The Hong Kong Building and Loan Agency Limited
Chong Kok Leong
Executive Director

Hong Kong, 17 June 2019

As at the date of this announcement, the Board comprises Dr. Li Ai Guo, Mr. Chong Kok Leong and Mr. Zhuang Miaozhong being the executive Directors; and Mr. Choy Hiu Fai, Eric, Mr. Huang Lizhi and Mr. Ng Kay Kwok being the independent non-executive Directors.