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)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Director(s)**") of The Hong Kong Building and Loan Agency Limited (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Revenue	*5*	**50,506**	80,719
Cost of operations		**(35,606)**	(61,918)
Gross profit		**14,900**	18,801
Other income	*6*	**7,865**	2,202
Other gains and losses	*7*	**–**	419
Impairment loss on goodwill	*13*	**(432,403)**	(66,176)
Impairment loss on intangible assets		**(541,453)**	–
Amortisation of intangible assets		**(54,484)**	(54,484)
Loss on remeasurement of liability component of convertible bonds		**(403,694)**	–
Selling expenses		**(2,515)**	(2,200)
Administrative and operating expenses		**(22,817)**	(23,180)

	Notes	**2018** **HK$'000**	2017 HK$'000
Loss from operations		**(1,434,601)**	(124,618)
Finance costs	8	**(99,123)**	(88,689)
Loss before taxation	9	**(1,533,724)**	(213,307)
Taxation	10	**161,986**	20,074
Loss for the year		**(1,371,738)**	(193,233)
Other comprehensive (loss)/income for the year, net of tax			
Item that will not be reclassified to profit or loss:			
Changes in fair value of financial assets at fair value through other comprehensive income		**(2,481)**	–
Items that may be reclassified subsequently to profit or loss:			
Gain on revaluation of available-for-sale investments		**–**	245
Exchange differences on translating foreign investments		**(6,430)**	6,604
Other comprehensive (loss)/income for the year, net of tax		**(8,911)**	6,849
Total comprehensive loss for the year, net of tax		**(1,380,649)**	(186,384)
Loss for the year attributable to owners of the Company		**(1,371,738)**	(193,233)
Total comprehensive loss attributable to owners of the Company		**(1,380,649)**	(186,384)
		HK cents	*HK cents*
Loss per share			
– Basic and diluted	12	**(59.47)**	(8.45)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Intangible assets		**101,000**	696,937
Property, plant and equipment		**367**	659
Construction in progress		**19,614**	22,515
Goodwill	*13*	**–**	432,403
Financial assets at fair value through other comprehensive income		**8,811**	–
Available-for-sale financial assets		**–**	12,127
Trade receivables	*14*	**13,130**	22,400
Finance lease receivables		**68,160**	33,612
		211,082	1,220,653
Current assets			
Inventories		**597**	632
Trade and bills receivables	*14*	**34,084**	36,430
Prepayments, deposits and other receivables		**1,784**	991
Finance lease receivables		**10,707**	12,777
Amount due from customers under construction contracts		**–**	861
Cash and bank balances		**22,986**	57,111
		70,158	108,802
Current liabilities			
Trade and other payables	*15*	**51,991**	25,092
Amounts due to shareholders		**–**	40
Other borrowings		**22,532**	23,965
Promissory notes		**127,400**	110,395
Convertible bonds		**945,158**	–
		1,147,081	159,492
Net current liabilities		**(1,076,923)**	(50,690)
Total assets less current liabilities		**(865,841)**	1,169,963

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Convertible bonds	**–**	491,008
Deferred tax liabilities	**15,150**	177,136
	15,150	668,144
Net (liabilities)/assets	**(880,991)**	501,819
Capital and reserves		
Share capital	**1,344,398**	1,344,398
Reserves	**(2,225,389)**	(842,579)
Total equity	**(880,991)**	501,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. CORPORATE INFORMATION

The Hong Kong Building and Loan Agency Limited (the "**Company**") was incorporated in Hong Kong and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Exchange**").

The address of registered office of the Company is Rooms 1801-4, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

The Company is an investment holding company and its subsidiaries are principally engaged in treasury investments and provision of loan financing and design and provision of energy saving solutions.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**") which is the same as functional currency of the Company and rounded to the nearest thousand (HK$'000), unless otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year:

HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

(a) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated statement of financial position (extract)	**At 31 December 2017**	**HKFRS 9**	**At 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Financial assets at fair value through other comprehensive income	–	12,127	12,127
Available-for-sale financial assets	12,127	(12,127)	–
Current assets			
Trade and bills receivables	36,430	(4)	36,426
Finance lease receivables	12,777	(2,304)	10,473
Contract assets	–	861	861
Amount due from customers under construction contracts	861	(861)	–
Net current liabilities	(50,690)	(2,308)	(52,998)
Total assets less current liabilities	1,169,963	(2,308)	1,167,655
Net assets	501,819	(2,308)	499,511
Capital and reserves			
Reserves	(842,579)	(2,308)	(844,887)
Total equity	501,819	(2,308)	499,511

(b) HKFRS 9 Financial Instruments

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" 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 (3) general hedge accounting.

The Group 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) 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 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 disclosed in Note 3 to consolidated financial statements.

Summary of effects arising from initial application of HKFRS9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

(i) **Classification and measurement**

	At 31 December 2017	Impact on initial application of HKFRS 9	At 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Financial assets at fair value through other comprehensive income	–	12,127	12,127
Available-for-sale financial assets	12,127	(12,127)	–

Note:

Reclassification from available-for-sale financial assets to ("FVTOCI")

The investment in listed and unlisted equity securities of the Group with aggregated fair value of approximately HK$12,127,000 as at 1 January 2018 were reclassified from available-for-sale financial assets to FVTOCI. These investments are not held for trading and not expected to be sold in the foreseeable future. Related cumulative fair value gain of approximately HK$1,203,000 were transferred from available for sales investment reserve to financial assets at fair value through other comprehensive income reserve on 1 January 2018. Also, an impairment loss on available-for-sale financial assets previously recognised HK$1,203,000 was transferred from available-for-sales investment reserve to FVTOCI reserve as at 1 January 2018.

Except the reclassification as above, there is no reclassification or remeasurement of the financial assets, including trade and bills receivables, deposits and other receivables, finance lease receivables and cash and bank balances.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on internal credit rating and/or past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including bills receivables, deposits, other receivables, finance lease receivables and bank balances, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

All loss allowances including trade receivables and finance lease receivables at amortised cost as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables	**Finance lease receivables**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2017 – HKAS 39	–	–	–
Amounts re-measured through opening retained earnings	4	2,304	2,308
At 1 January 2018 – HKFRS 9 (restated)	4	2,304	2,308

The impact of these changes on the group's equity is as follows:

	Financial assets at fair value through other comprehensive income reserve	Available for sales investment reserve	Exchange reserve	Accumulated losses
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017 - HKAS 39	–	1,203	4,419	(1,521,439)
Reclassify from available-for-sale financial assets to FVTOCI	1,203	(1,203)	–	–
Impairment under ECL model	–	–	147	(2,308)
At 1 January 2018 – HKFRS 9 as restated	1,203	–	4,566	(1,523,747)

Impact on change in accounting policies on HKFRS 15 "Revenue from Contract with Customers"

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 15, prior period comparative figures have not been restated. The Group recognises revenue mainly from the following major sources which arise from contracts with customers:

- Energy saving solutions income
- Repair and maintenance service income

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Note 4 to consolidated financial statements.

As a result of the changes in the Group's accounting policies, as explained above, HKFRS 15 was generally adopted without restating any other comparative information. The adoption of HKFRS 15 in the current period does not result in any significant impact on the amounts reported in the consolidated financial information and/or disclosures set out in the consolidated financial information except that, the Group has adopted the following accounting policies on revenues with effect from 1 January 2018 as stated in notes to consolidated financial statements.

New and revised HKFRSs that have been issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but not yet effective:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a business[4]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HKAS 1 and HKAS 8 (Amendments)	Definition of Material[5]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

[1] Effective for annual periods beginning on or after 1st January 2019.

[2] Effective for annual periods beginning on or after 1st January 2021.

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

[4] Effective for business combinations and assets acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January 2020.

[5] Effective for annual periods beginning on or after 1st January 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by HKICPA. In addition, these consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Exchange and the Hong Kong Companies Ordinance.

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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 Group takes into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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 Group incurred a net loss of approximately HK$1,371,738,000 for the year ended 31 December 2018. As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately HK$1,076,923,000 and net liabilities of approximately HK$880,991,000 and;

The Group had promissory notes of approximately HK$127,400,000 and other borrowings of approximately HK$22,532,000 which was expired and the other borrowings carried the default interest on 17% interest rate per annum. Also, the convertible bonds with amount of approximately HK$945,158,000 was reclassify to current liabilities subject to cross default clause in the convertible bonds agreement. The directors of the Company adopted the going concern basis in the preparation of consolidated financial statements and implemented the following measures in order to improve the working capital and liquidity and cash flow position of the Group.

(i) Alternative source of funding

The Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer and placing of new shares.

(ii) Negotiation on implementation a scheme of arrangement

The management represents that the Group is currently filed an application with the Court of First Instance of the High Court of Hong Kong ("Court") seeking an order ("Convening Order", and the hearing at which such an order was considered, the "Convening Hearing") to, among other things, convene a meeting ("Scheme Meeting") of certain creditors of the Company. The Convening Hearing is fixed on 14 May 2019. The purpose of which is to settle and discharge all liabilities under the convertible bonds and promissory notes issued by the Company in relation to the acquisition in the previous years.

(iii) Control policy for operating cost

The Group will implement operation plans to control costs and generate adequate cash flows from the Group's operations.

In the opinion of the directors of the Company, in light of the various measures/arrangements implemented after the end of the reporting period, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

4. SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision maker ("**CODM**") for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and specifically focuses on the Group's operating divisions. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

During the years ended 31 December 2018 and 2017, the Group operates in one operating segment which is the provision of design and provision of energy saving solutions. A single management team reports to the Directors of the Group (being the chief operating decision-maker) who comprehensively manages the entire business. Accordingly, the Group does not present separately segment information.

Geographical information

The Group operates in three principal geographical areas – Hong Kong, the People's Republic of China (the "**PRC**") and Taiwan.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**50,506**	80,719	**202,271**	1,208,526
Hong Kong	**–**	–	**–**	835
Taiwan	**–**	–	**8,811**	11,292
	50,506	80,719	**211,082**	1,220,653

Information about major customers

Included in the Group's revenue of approximately HK$50,506,000 (2017: HK$80,719,000), the revenue of approximately HK$48,075,000 (2017: HK$71,409,000) which arose from three (2017: three) customers of the design and provision of energy saving solutions business which contributed 10% or more to the Group's revenue for the year.

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	2018	2017
	HK$'000	*HK$'000*
Customer A *(Note)*	**–**	42,259
Customer B	**18,095**	15,425
Customer C *(Note)*	**–**	13,725
Customer D	**24,615**	–
Customer E	**5,365**	–

Note: No information on revenue for the year ended 31 December 2018 is disclosed for these customers since none of them contributed 10% or more than to the Group's revenue for the year ended 31 December 2018.

5. REVENUE

Revenue represents the aggregate of the amounts received and receivable from third parties, income from design and provision of energy saving solutions. Revenue recognised during the year are as following:

Disaggregation of revenue from contracts with customers

	2018	2017
	HK$'000	*HK$'000*
Recognised over time		
Energy saving solutions income	**6,452**	54,127
Recognised at a point in time		
Repair and maintenance service income	**472**	232
Revenue from contracts with customers	**6,924**	54,359
Revenue from other source		
Energy saving solutions income under finance leases	**43,582**	26,360
	50,506	80,719

6. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**173**	101
Interest income on finance lease receivables	**3,865**	2,029
Interest income on extended trade receivables	**3,299**	–
Reversal of loss allowance on trade receivables	**1**	–
Reversal of loss allowance on finance lease receivables	**480**	–
Government grants	**36**	40
Others	**11**	32
	7,865	2,202

7. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Changes in fair value of financial liabilities derivatives	**–**	419

8. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expense on other borrowings	**3,307**	925
Imputed interest charged on promissory notes	**17,005**	14,735
Imputed interest charged on convertible bonds	**78,811**	73,029
	99,123	88,689

9. LOSS BEFORE TAXATION

The Group's loss for the year is arrived at after charging:

	2018	2017
	HK$'000	*HK$'000*
Staff costs (including directors' remuneration)		
– Directors' fee	**1,701**	2,841
– Salaries, bonus and wages	**7,424**	7,440
– Contribution to retirement benefits schemes	**841**	745
	9,966	11,026
Amortisation of intangible assets	**54,484**	54,484
Depreciation of property, plant and equipment	**293**	462
Cost of inventories sold	**35,606**	61,918
Auditors' remuneration	**890**	890
Operating lease payments	**1,455**	1,575
Loss on disposal of property, plant and equipment	**–**	94
Exchange loss	**2,744**	479
Impairment loss on goodwill	**432,403**	66,176
Impairment loss on intangible assets	**541,453**	–
Loss on remeasurement of liability component of convertible bonds	**403,694**	–
Loss allowance for credit loss	**770**	–

10. TAXATION

	2018	2017
	HK$'000	*HK$'000*
Deferred taxation		
Credit for the year	**(161,986)**	(20,074)

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions which members of the Group are domiciled and operate.

(i) Hong Kong Profits Tax

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. The assessable profits of corporation not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the year ended 31 December 2018.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit the year ended 31 December 2017. No provision of profit tax as no assessable profit for the both years.

(ii) PRC Enterprise Income Tax

The subsidiaries of the Group established in the PRC is generally subject to PRC Enterprise Income Tax on its taxable income at an income tax rate of 25%. One of Company's subsidiary in the PRC is qualified as an High Technology Enterprise from 1 January 2012 and enjoy PRC Enterprise Income Tax rate of 15%.

11. DIVIDEND

The Directors do not recommend payment of any dividends for the year ended 31 December 2018 (2017: Nil).

12. LOSS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Loss attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(1,371,738)**	(193,233)

	2018	2017
	HK$'000	*HK$'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**2,306,502**	2,285,439

The denominators used are the same as those detailed above for basic and diluted loss per share.

Note: The calculation of diluted loss per share for the years ended 31 December 2018 and 2017 does not include convertible bonds and share options as the assumed exercise of these convertible bonds and share options has an anti-dilutive effect. The basic and diluted loss per share are the same for both years.

13. GOODWILL

	HK$'000
Cost	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**1,275,620**
Accumulated impairment	
As at 1 January 2017	777,041
Impairment for the year	66,176
At 31 December 2017 and 1 January 2018	843,217
Impairment for the year	432,403
At 31 December 2018	**1,275,620**
Carrying amounts	
At 31 December 2018	**–**
At 31 December 2017	432,403

Goodwill has been allocated for impairment testing purposes to the following cash generating units ("**CGU**"):

– Design and provision of energy saving solutions ("**Energy Saving Business**")

At the end of the reporting period, the Group assessed the recoverable amount of cash generating unit to which the goodwill is allocated by appointing an independent professional valuer.

14. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables		
– with normal credit terms	**22,262**	25,243
– with extended credit terms	**24,487**	33,587
	46,749	58,830
Less: Allowance for credit losses	**(770)**	–
	45,979	58,830
Less: Non-current portion of trade receivables with extended credit terms	**(13,130)**	(22,400)
Current portion of trade receivables	**32,849**	36,430
Bills receivables	**1,235**	–
	34,084	36,430

The ageing analysis of trade receivables is based on the invoice date as follows:

	Extended credit terms		Normal credit terms		Total	
	2018	2017	2018	2017	2018	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
0-90 days	**–**	33,587	**900**	22,925	**900**	56,512
91-180 days	**–**	–	**–**	2,082	**–**	2,082
Over 180 days	**24,487**	–	**20,592**	236	**45,079**	236
	24,487	33,587	**21,492**	25,243	**45,979**	58,830

15. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**1,422**	1,278
Accrued service fee for acquisition of a subsidiary	**3,871**	3,871
Accrued expenses	**3,588**	2,410
Receipt in advance	**–**	1,945
Interest payables	**42,532**	14,177
Other payables	**578**	1,411
	51,991	25,092

The ageing analysis of trade payables is based on the invoice date as follows:

	2018	2017
	HK$'000	*HK$'000*
0 – 90 days	**181**	713
91 – 180 days	**7**	–
181 – 365 days	**380**	78
Over 365 days	**854**	487
	1,422	1,278

Trade payables are interest-free and normally settled on delivery. The average credit period for purchase of goods is 90 days.

EXTRACT OF THE AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's annual financial statements for the year ended 31 December 2018:

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and as to whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Material uncertainties relating to the going concern basis

As explained in Note 3(b) to the consolidated financial statements, the Group incurred a net loss of approximately HK$1,371,738,000 and a net cash outflow from operating activities of approximately HK$27,269,000 for the year ended 31 December 2018. As at 31 December 2018, the Group had net current liabilities of approximately HK$1,076,923,000 and net liabilities of approximately HK$880,991,000.

The directors have been undertaking certain measures to improve the Group's liquidity and financial position, which are set out in Note 3(b) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the outcomes of these measures, which are subject to uncertainties, including (i) whether the Group is able to successfully obtain additional financing as and when required; (ii) whether the Group is able to implement its operational plans for control of costs and to generate adequate cash flow from operations, the achievability of which depends on the market environment which is expected to remain challenging; and (iii) whether the Group is able to successfully negotiate with the convertible bond holders and promissory note holders for the settlement of outstanding balance and discharge of all liabilities under the scheme of arrangement in the Scheme Meeting on 14 May 2019.

The factors referred to above, along with other matters as described in Note 3(b) to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

We have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves about the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the carrying value of assets, including the intangible assets as described below, to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

As detailed in Notes 18 to the consolidated financial statements, the intangible assets of the Group amounted to approximately HK$101,000,000 as at 31 December 2018, representing its recoverable amount as at that date. 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 saving solution business segment to which the intangible assets belong. The value in use of the CGU was estimated based on cash flow projections of the CGU. The preparation of the cash flow projections involved 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 referred to above concerning 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.

The effects of the adjustments referred to above have not been reflected in the consolidated financial statements and we were unable to determine whether such adjustments might have been found necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Hong Kong Building and Loan Agency Limited (the "**Company**"), together with its subsidiaries (collectively, the "**Group**"), are principally engaged in treasury investments, provision of loan financing and design and provision of energy saving solutions.

During the year ended 31 December 2018, the Group recorded a revenue of approximately HK$50,506,000, representing a decrease of approximately 37.4% as compared with HK$80,719,000 for the last year. A loss for the year attributable to the owners of the Company of approximately HK$1,371,738,000 (2017: loss of approximately HK$193,233,000) was recorded, which was mainly attributable to (i) an impairment of goodwill of approximately HK$432,403,000 (2017: HK$66,176,000); (ii) an impairment of intangible assets of approximately HK$541,453,000 (2017: Nil); (iii) loss on remeasurement of liability component of convertible bonds of approximately HK$403,694,000 (2017: Nil); (iv) the amortisation of the intangible assets of the Company of approximately HK$54,484,000 (2017: HK$54,484,000); and (v) finance costs of approximately HK$95,816,000 (2017: HK$87,764,000) due to interest amortisation of convertible bonds and promissory notes; and approximately HK$3,307,000 (2017: HK$925,000) on other borrowings raised for financing the projects of the Group's operations.

Energy saving solutions business

The Company completed the acquisition of Weldtech Technology Co. Limited and its subsidiary, Haoxin Technology (Shanghai) Company Limited（濠信節能科技（上海）有限公司）(collectively, the "**Weldtech Group**") (the "**Acquisition**") in June 2014, which is primarily engaged in design and provision of energy saving solutions business.

With respect to the segment of design and provision of energy saving solutions, a segment loss of approximately HK$1,025,904,000 was recorded for the year ended 31 December 2018 (2017: approximately HK$113,774,000). The segment loss was mainly attributable to the impairment of goodwill of approximately HK$432,403,000 (2017: HK$66,176,000); the impairment of intangible assets of approximately HK$541,453,000 (2017: Nil); and the amortisation of the intangible assets of approximately HK$54,484,000 (2017: HK$54,484,000).

The impairment of goodwill and intangible assets represents the impairment of goodwill arising from the acquisition of Weldtech Technology Co. Limited and its subsidiary, Haoxin Technology (Shanghai) Company Limited (濠信節能科技(上海)有限公司) (collectively, the "**Weldtech Group**") (the "**Acquisition**") in 2014 and the impairment of intangible assets held under Weldtech Group. The Company engaged an independent qualified valuer to assess the value in use of Weldtech Group as at 31 December 2018 and produced the valuation report, which was used to determine the fore-mentioned impairment amount, after taking into account (i) the economic development of the PRC; (ii) the development of energy saving industry; and (iii) the expected business flow and development plan of the Energy Saving Business during the valuation process.

The decrease in valuation compared to last year was mainly based on the following factors: (i) the slow-down in the PRC economy that weakened the enterprise demand; (ii) the fierce competitions within the energy saving business; (iii) difficulties in getting financing within the energy saving industry; and (iv) continuous lowering of government subsidies. As above, an overall poor market sentiment in energy saving sector is resulted. In early 2018, the Group was negotiating the corporate financing plan with an independent potential investor for fund raising and both the Group and potential investor already engaged their financial advisor and related professional parties for due diligence task. However, after exchanging the views of the structure of the fund raising exercise, no further update has been received from the potential investor. Since then, the Company has been negotiating with other investors and institutions to provide further liquidity for the Group. As announced in January 2019, the Company proposed to enter into and implement a scheme of arrangement (the "Scheme"), the purpose of which is to settle and discharge all liabilities under the convertible bonds and promissory notes issued by the Company in relation to the Acquisition in the previous years. The management is in the opinion that settlement and discharge of the above liabilities upon the successful implementation and completion of the Scheme will substantially improve the financial position of the Group and increase the likelihood and successfulness of engaging potential investors for investments in the Group.

During the year ended 31 December 2018, Weldtech Group has mainly completed the projects signed in previous years. Project completion is subjected to factors such as (i) suitable weather conditions for system commissioning and/or trial run to ensure the system stability and level of energy saving; (ii) customer related factors including the condition and/or the readiness of the project site provided by customers; and (iii) projection variations due to change in project scope or schedule requested by customers. The Weldtech Group mainly focused on seeking buyout project opportunities from potential customers or through secondary sales from existing customers. Due to the slow-down in the PRC economy that weakened the enterprise demand and the fierce competitions within the energy saving business, the revenue decreased to HK$50,506,000 as compared with HK$80,719,000 for the last year. Before deducting the amortisation of intangible assets, impairment loss of goodwill and impairment loss of intangible assets, Weldtech Group has generated a segment profit of approximately HK$2,436,000 (2017: segment profit of approximately HK$6,886,000) to the Group.

Loan financing and treasury investments businesses

With respect to the segment of loan financing and treasury investments businesses, the Company is in the process of locating opportunities in both the loan financing and treasury investments segments. However, there is no desirable opportunity raised and found fit to the Company. The Company will continue to explore the business opportunities in the market for the development of the Group's business.

Total Assets and Total Liabilities

As at 31 December 2018, the total assets decreased to approximately HK$281,240,000 (2017: approximately HK$1,329,455,000). The decrease was mainly attributable to: (i) the decrease in construction in progress to approximately HK$19,614,000 (2017: approximately HK$22,515,000); (ii) the decrease in trade and bills receivables to approximately HK$47,214,000 (2017: HK$58,830,000); (iii) the impairment of goodwill of approximately HK$432,403,000 (2017: HK$66,176,000); (iv) the impairment of intangible assets of approximately HK$541,453,000 (2017: Nil); (v) the amortisation of Intangible assets of HK$54,484,000 (2017: HK$54,484,000); offset by (vi) the increase in finance lease receivable to approximately HK$78,867,000 (2017: approximately HK$46,389,000).

As at 31 December 2018, the Group held intangible assets amounting to approximately HK$101,000,000 (2017: approximately HK$696,937,000). The intangible assets represent 7 patents related to the "Ultra Performance Plant Control System" ("**UPPC System**") used by the energy saving solutions business.

As at 31 December 2018, the Group held finance lease receivables amounting to approximately HK$78,867,000 (2017: approximately HK$46,389,000).

As at 31 December 2018, the total liabilities increased to approximately HK$1,162,231,000 (2017: approximately HK$827,636,000). The total liabilities mainly represented the convertible bonds with carrying amount of approximately HK$945,158,000 (2017: approximately HK$491,008,000); the promissory notes with carrying amount of approximately HK$127,400,000 (2017: approximately HK$110,395,000); trade and other payables of approximately HK$51,991,000 (2017: approximately HK$25,092,000); and other borrowings of approximately HK$22,532,000 (2017: HK$23,965,000). The increase in total liabilities was mainly due to the imputed interest charged on the carrying amount of convertible bonds and promissory notes of approximately HK$95,816,000 (2017: approximately HK$87,764,000) and loss on remeasurement of liability component of convertible bonds of approximately HK$403,694,000 (2017: Nil).

Foreign Exchange Exposure

The Group conducts its business transactions mainly in the PRC and Hong Kong. The Group's assets were mainly denominated in Renminbi ("**RMB**") and Hong Kong Dollars ("**HK$**"). HK$ is the Group's presentation currency. During the year, the revenue, cost of operations and operating expenses of the Group are mainly denominated in RMB. Therefore, the Group is exposed to potential foreign exchange risk as a result of fluctuation of RMB against HK$. The Group has not entered into any significant foreign exchange contract. Management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity and Financial Resources

As at 31 December 2018, the Group's cash and bank balances amounted to approximately HK$22,986,000 (2017: approximately HK$57,111,000), and it had outstanding convertible bonds of approximately HK$945,158,000 (2017: approximately HK$491,008,000) and promissory notes of approximately HK$127,400,000 (2017: approximately HK$110,395,000).

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately HK$1,076,923,000 and net liabilities of approximately HK$880,991,000 (2017: net assets of approximately HK$501,819,000); and the Group had promissory notes of approximately HK$127,400,000 and other borrowings of approximately HK$22,532,000 which was expired and the other borrowings carried the default interest on 17% interest rate per annum. Also, the convertible bonds with amount of approximately HK$945,158,000 was reclassify to current liabilities subject to cross default clause in the convertible bonds agreement. The directors of the Company adopted the going concern basis in the preparation of consolidated financial statements and implemented the measures as set out in Note 3 in order to improve the working capital and liquidity and cash flow position of the Group.

In the opinion of the directors of the Company, in light of the various measures/arrangements implemented after the end of the reporting period, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The gearing ratio of the Group as at 31 December 2018, which is calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total capital, was 561% (2017: 53%).

As at 31 December 2018, the Group's other borrowings of approximately HK$22,532,000 (2017: HK$23,965,000) were secured by the corporate guarantees granted by the Company.

Capital Structure

As at 31 December 2018, the Company had principal amount of HK$305,545,700 convertible bond A (the "**CB A**") outstanding which could be converted into 381,932,124 Shares at the conversion price of HK$0.80 per share. During the year ended 31 December 2018, no new Shares were issued from the conversion of CB A.

As at 31 December 2018, the Company had principal amount of HK$639,612,430 convertible bond B (the "**CB B**") outstanding which could be converted into 799,515,538 Shares at the conversion price of HK$0.80 per share. During the year ended 31 December 2018, no new Shares were issued from the conversion of CB B.

As at 31 December 2018, the Company's number of issued ordinary shares was 2,306,502,816 ("**Share(s)**") (2017: 2,306,502,816 Shares).

Charge on Group Assets and Contingent Liabilities

As at 31 December 2018, the Group did not have material contingent liabilities (2017: Nil) and charge on group assets (2017: Nil).

Capital Commitment

As at 31 December 2018, the Group had capital commitments, which were contracted but not provided for, in respect of construction contract of approximately HK$6,679,000 (2017: approximately HK$23,471,000).

Material Investments, Acquisition and Disposals

Save as disclosed elsewhere in this announcement, there were no material investments, acquisitions or disposals of subsidiaries during the year ended 31 December 2018.

Staff and Remuneration

The Group had 34 (2017: 39) employees as at 31 December 2018 and total staff costs during the year ended 31 December 2018 amounted to approximately HK$9,966,000 (2017: approximately HK$11,026,000). The Group offers competitive remuneration packages to its employees.

Scheme of Arrangement

The Company proposes to enter into and implement a scheme of arrangement pursuant to Sections 670 and 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Scheme**"), the purpose of which is to settle and discharge all liabilities under the convertible bonds and promissory notes issued by the Company.

An application has been filed with the Court of First Instance of the High Court of Hong Kong (the "**Court**") seeking an order (the "**Convening Order**", and the hearing at which such an order was considered, the "**Convening Hearing**") to, among other things, convene a meeting (the "**Scheme Meeting**") of certain creditors of the Company. The Convening Hearing is fixed on 14 May 2019.

For further details, please refer to the announcement of the Company dated 10 January 2019.

Outlook and Prospect

Regarding the energy saving solutions business, due to the increasing awareness of the energy saving, social responsibility and also the determination to reduce carbon emission, the energy saving and environmental protection remain the key focus of the PRC government. However, the Group is facing intensified competition in the energy saving industry, particularly for small and medium-sized projects and macro-economic factors that fluctuates the market.

Going forward, the Weldtech Group will continue to target potential customers for buyout projects to improve cashflow of the Weldtech Group with shorter turnover days and explore secondary sales from existing customers, enhancing the portfolio of the Company's energy saving solutions to maximise the potential of our customers on top of the existing UPPC System and air conditioning solutions. The Weldtech Group will explore the feasibility to research and develop self-control or energy saving systems platforms to customers in which such products would require minimal upfront capital deployment from the Weldtech Group.

Furthermore, the Group has been reviewing its existing operations from time to time and will continue to seek for different investment opportunities with appropriate risk and return profile. The Group will continue to explore various funding sources including project financing, debt financing and/or equity fund raising to finance the development of the Group's businesses.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2018, the Company applied the principles of and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules of the Exchange save for the following deviations:

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive ("**CE**") should be separate and should not be performed by the same individual. The Company did not appoint any chairman or CE during the year ended 31 December 2018. The functions of the chairman and CE are performed by Directors. The Board will review the current practice from time to time and make appropriate changes if considered necessary.

Under code provision A.2.7 of the CG Code, the chairman of the board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. As the Company does not have a chairman, no such meeting was held in the year ended 31 December 2018.

Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Some Directors were absent from the last annual general meeting of the Company held on 25 May 2018 due to their other important engagements at the relevant time.

Under code provision F.1.2 of the CG Code, a board meeting should be held to discuss the appointment and dismissal of the company secretary and the matter should be dealt with by a physical board meeting rather than a written resolution. The appointment of Ms. Lai Wai Ha ("**Ms. Lai**"), delegated by an external service provider, as the company secretary of the Company following the resignation of Mr. Pak Wai Keung Martin effective on 1 August 2018 was passed by a written resolution of the Board due to the tight schedule of the Directors. Ms. Lai's primary corporate contact is Mr. Chong Kok Leong, the executive Director.

According to rules 3.10(1) and 3.21 of the Listing Rules, the Company was required to appoint at least three independent non-executive directors and to comprise a minimum number of three members of the audit committee. Following the resignation of Mr. Yeung Wai Hung, Peter as independent non-executive Director, effective from 2 June 2018, the numbers of independent non-executive Directors and the members of the audit committee of the Company were less than three as required under rules 3.10(1) and 3.21 of the Listing Rules. The Company had fully complied with the aforesaid rules subsequent to the appointment of Mr. Ng Kay Kwok as an independent non-executive director, the chairman of audit committee and members of remuneration and nomination committees of the Company with effect from 15 August 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

AUDIT COMMITTEE REVIEW

The audit committee of the Company (the "**Audit Committee**") consists of three independent non-executive Directors, namely Mr. Ng Kay Kwok (the chairman of the Audit Committee), Mr. Choy Hiu Fai, Eric, and Mr. Huang Lizhi.

The primary duties of the Audit Committee are to review the Group's annual reports and accounts, half-year reports and internal control and risk management systems, and to review significant financial reporting judgments contained in its reports and to provide advice and comments thereon to the Board.

The audited final results for the year ended 31 December 2018 of the Company have been reviewed by the Audit Committee.

SCOPE OF WORK OF HLB HODGSON IMPEY CHENG LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2018. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by HLB Hodgson Impey Cheng Limited on the preliminary announcement.

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

Hong Kong, 28 March 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.