# 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)**

# INTERIM RESULTS
# FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Director(s)**") of The Hong Kong Building and Loan Agency Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2019 together with the unaudited comparative figures for the six months ended 30 June 2018 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2019*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2019** | 2018 |
| | | ***HK$'000*** | *HK$'000* |
| | *Notes* | **(Unaudited)** | (Unaudited) |
| **Revenue** | *4* | **15,917** | 6,387 |
| Cost of operation | | **(14,093)** | (4,701) |
| **Gross profit** | | **1,824** | 1,686 |
| Other income | *5* | **1,911** | 2,201 |
| Other gains and losses | *6* | **(788)** | – |
| Selling expenses | | **(1,305)** | (1,444) |
| Administrative and operating expenses | | **(14,051)** | (37,264) |
| **Loss from operations** | | **(12,409)** | (34,821) |
| Finance costs | *7* | **(16,355)** | (61,910) |
| **Loss before taxation** | *8* | **(28,764)** | (96,731) |
| Taxation | *9* | **642** | 12,700 |
| **Loss for the period** | | **(28,122)** | (84,031) |

| | Notes | Six months ended 30 June<br>**2019**<br>***HK$'000***<br>**(Unaudited)** | <br>2018<br>*HK$'000*<br>(Unaudited) |
|---|---|---|---|
| **Other comprehensive income/(loss) for the period, net of tax** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | | **2** | – |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Gain on revaluation of available-for-sale financial assets | | **–** | 533 |
| Exchange differences arising on translation of foreign operations | | **686** | 2,302 |
| **Other comprehensive income for the period, net of tax** | | **688** | 2,835 |
| **Total comprehensive loss for the period, net of tax** | | **(27,434)** | (81,196) |
| **Loss for the period attributable to owners of the Company** | | **(28,122)** | (84,031) |
| **Total comprehensive loss for the period attributable to owners of the Company** | | **(27,434)** | (81,196) |
| **Loss per share** | *11* | | |
| – Basic and diluted, HK cents | | **(1.22)** | (3.64) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 30 JUNE 2019*

| | *Notes* | **30 June 2019** **HK$'000** **(Unaudited)** | 31 December 2018 *HK$'000* (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **96,717** | 101,000 |
| Property, plant and equipment | | **689** | 367 |
| Right-of-use assets | | **738** | – |
| Construction in progress | | **9,671** | 19,614 |
| Financial assets at fair value through other comprehensive income | | **8,813** | 8,811 |
| Trade receivables | *12* | **17,095** | 13,130 |
| Finance lease receivables | | **66,555** | 68,160 |
| | | **200,278** | 211,082 |
| **Current assets** | | | |
| Inventories | | **595** | 597 |
| Trade and bills receivables | *12* | **44,217** | 34,084 |
| Prepayments, deposits and other receivables | | **2,003** | 1,784 |
| Finance lease receivables | | **10,909** | 10,707 |
| Cash and bank balances | | **13,581** | 22,986 |
| | | **71,305** | 70,158 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **69,648** | 51,991 |
| Lease liabilities | | **477** | – |
| Other borrowings | | **22,648** | 22,532 |
| Convertible bonds | | **945,158** | 945,158 |
| Promissory notes | | **127,400** | 127,400 |
| | | **1,165,331** | 1,147,081 |
| **Net current liabilities** | | **(1,094,026)** | (1,076,923) |
| **Total assets less current liabilities** | | **(893,748)** | (865,841) |

| | 30 June 2019 *HK$'000* (Unaudited) | 31 December 2018 *HK$'000* (Audited) |
|---|---|---|
| **Non-current liabilities** | | |
| Lease liabilities | **169** | – |
| Deferred tax liabilities | **14,508** | 15,150 |
| | **14,677** | 15,150 |
| **Net liabilities** | **(908,425)** | (880,991) |
| **Capital and reserves** | | |
| Share capital | **1,344,398** | 1,344,398 |
| Reserves | **(2,252,823)** | (2,225,389) |
| **Total equity** | **(908,425)** | (880,991) |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2019*

## 1. BASIS OF PREPARATION

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

The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2018 as contained in the Company's annual report 2018, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "**HKFRSs**").

The preparation of the unaudited condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The unaudited condensed consolidated financial statements are presented in HK dollars ("**HK$**"), which is the same as the functional currency of the Group. All values are rounded to the nearest thousand, unless otherwise stated. These unaudited condensed consolidated financial statements were approved for issue on 27 August 2019.

The financial information relating to the financial year ended 31 December 2018 that is included in this interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements for the year ended 31 December 2018. The auditors' report had been qualified with a disclaimer of opinion. It was stated in the auditors' report that the auditors have not been able to obtain sufficient appropriate audit evidence to satisfy themselves about the appropriateness of the use of the going concern basis of accounting in the preparation of condensed financial statements.

**Going Concern**

For the period ended 30 June 2019, the Group incurred a net loss of approximately HK$28,122,000 (2018: approximately HK$84,031,000). As at 30 June 2019, the Group had net current liabilities of approximately HK$1,094,026,000 (31 December 2018: approximately HK$1,076,923,000) and net liabilities of approximately HK$908,425,000 (31 December 2018: approximately HK$880,991,000).

The Group had promissory notes of approximately HK$127,400,000 and other borrowings of approximately Hk$22,532,000 which was expired and 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 reclassified to current liabilities subject to cross default clause in the convertible bonds agreement.

***(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 Company filed 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 to, (the "**Convening Hearing**") among other things, convene a meeting ("**Scheme Meeting**") which is to settle and discharge all liabilities under the convertible bonds and promissory notes issued by the Group with certain creditors. On 14 May 2019, the Court granted the Convening Order and the Scheme Meeting was held and approved by requisite statutory majorities of the Creditors on 28 June 2019. The Scheme was sanctioned by the Court at the Court Hearing held on 20 August 2019. The registration date of the order sanctioning the Scheme granted by the Court with the Companies Registry in Hong Kong ("**Effective Date**") is expected to be on 30 August 2019.

***(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.

These conditions indicate the existence of a material uncertainty that might cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise the Group's assets and discharge the Group's liabilities in the normal course of business.

In view of such circumstances, the directors of the Company have given careful consideration to future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will be able to repay the outstanding promissory notes and convertible bonds and be able to finance its future working capital and finance requirements. Certain measures have been taken to manage its liquidity needs and to improve its financial position which include, but are not limited to, the following:

(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.

Whilst the Group is taking measures to preserve cash and secure additional finance, the following material uncertainties exist:

(i) the Group may not be able to successfully obtain additional financing as and when required;

(ii) the Group may not be 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) the Group may not be 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.

These facts and circumstances indicate the existence of multiple material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors of the Company are of the opinion that, taking into account the abovementioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the condensed consolidated financial statements for the period ended 30 June 2019 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 condensed consolidated financial statements.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group's financial statements:

| | |
|---|---|
| HKFRS 16 | Leases |
| HK (IFRIC) – Int 23 | Uncertainty over Income Tax Treatments |
| HKFRS 9 (Amendments) | Prepayment Features with Negative Compensation |
| HKAS 19 (Amendments) | Plan Amendment, Curtailment or Settlement |
| HKAS 28 (Amendments) | Long-term interests in Associates and Joint Ventures |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2015-2017 Cycle |

## 3. 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 period ended 30 June 2019 and 2018, 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 | |
|---|---|---|---|---|
| | **30 June** | 30 June | **30 June** | 31 December |
| | **2019** | 2018 | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Audited) |
| The PRC | **15,917** | 6,387 | **191,465** | 202,271 |
| Taiwan | **–** | – | **8,813** | 8,811 |
| | **15,917** | 6,387 | **200,278** | 211,082 |

## 4. REVENUE

Revenue represents income from design and provision of energy saving solutions.

An analysis of the Group's revenue by principal activities are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Disaggregation of revenue from contracts with customers** | | |
| **Recognised over time** | | |
| Energy saving solutions income | **14,279** | 6,101 |
| **Recognised at a point in time** | | |
| Repair and maintenance service income | **480** | 286 |
| Revenue from contracts with customers | **14,759** | 6,387 |
| **Revenue from other source** | | |
| Energy saving solutions income under finance leases | **1,158** | – |
| | **15,917** | 6,387 |

## 5. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Bank interest income | **57** | 104 |
| Interest income on finance lease receivables | **706** | 2,091 |
| Interest income on extended trade receivables | **1,069** | – |
| Reversal of loss allowance on trade receivables | **18** | – |
| Reversal of loss allowance on finance lease receivables | **55** | – |
| Others | **6** | 6 |
| | **1,911** | 2,201 |

## 6. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Impairment loss on finance lease receivables | **788** | – |

## 7. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest on other borrowings | **2,169** | 1,508 |
| Interest on convertible bonds | **14,177** | 14,177 |
| Imputed interest on promissory notes | **–** | 8,198 |
| Imputed interest on convertible bonds | **–** | 38,027 |
| Interest on lease liabilities | **9** | – |
| | **16,355** | 61,910 |

## 8. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Staff costs (including Directors' remuneration): | | |
| – Directors' fee | **900** | 830 |
| – Salaries, bonus and wages | **2,937** | 4,255 |
| – Contribution to retirement benefits schemes | **440** | 405 |
| | **4,277** | 5,490 |
| Amortisation of intangible assets | **4,283** | 27,242 |
| Depreciation of property, plant and equipment | **163** | 144 |
| Depreciation of right-of-use assets | **268** | – |
| Cost of inventories sold | **14,093** | 4,701 |
| Operating lease payments | **153** | 999 |
| Impairment loss on finance lease receivables | **788** | – |

## 9. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Deferred taxation** | | |
| Credit for the period | **(642)** | (12,700) |

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.

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits in Hong Kong for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## 10. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## 11. LOSS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Loss** | | |
| Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share | **(28,122)** | (84,031) |

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***'000*** | *'000* |
| | **(Unaudited)** | (Unaudited) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **2,306,502** | 2,306,502 |

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

*Note:* The computation of diluted loss per share for the six months ended 30 June 2019 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 periods.

## 12. TRADE AND BILLS RECEIVABLES

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | | |
| – with normal credit terms | **23,238** | 22,262 |
| – with extended credit terms | **38,809** | 24,487 |
| | **62,047** | 46,749 |
| *Less:* Allowance for expected credit losses | **(735)** | (770) |
| | **61,312** | 45,979 |
| *Less:* Non-current portion of trade receivables with extended credit terms | **(17,095)** | (13,130) |
| Current portion of trade receivables | **44,217** | 32,849 |
| Bills receivables | **–** | 1,235 |
| | **44,217** | 34,084 |

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

| | Extended Credit terms | | Normal Credit terms | | Total | |
|---|---|---|---|---|---|---|
| | **30 June 2019** | 31 December 2018 | **30 June 2019** | 31 December 2018 | **30 June 2019** | 31 December 2018 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) |
| 0 – 90 days | **15,353** | – | **1,263** | 900 | **16,616** | 900 |
| 91 – 180 days | **–** | – | **329** | – | **329** | – |
| Over 180 days | **23,454** | 24,487 | **20,913** | 20,592 | **44,367** | 45,079 |
| | **38,807** | 24,487 | **22,505** | 21,492 | **61,312** | 45,979 |

According to the credit rating of different customers, the Group allows average credit term of 90 days to its customers. Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

In determining the recoverability of trade receivables, the Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The impairment loss recognised represents the difference between the carrying amount of the specific trade receivables and the present value of the expected recoverable amount.

Reversal of loss allowance on trade receivables of approximately HK$18,000 have been recognised for trade receivables during the period ended 30 June 2019 (2018: Nil).

## 13. TRADE AND OTHER PAYABLES

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade payables | **1,082** | 1,422 |
| Accrued service fee for acquisition of a subsidiary | **3,871** | 3,871 |
| Accrued expenses | **1,066** | 3,588 |
| Interest payables | **61,518** | 42,532 |
| Other payables | **2,111** | 578 |
| | **69,648** | 51,991 |

An aged analysis of trade payables, based on the invoice date, is as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0 to 90 days | **136** | 181 |
| 91 to 180 days | **104** | 7 |
| 181 to 365 days | **–** | 380 |
| Over 365 days | **842** | 854 |
| | **1,082** | 1,422 |

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

## 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 investment, provision of loan financing and design and provision of energy saving solutions.

During the six months ended 30 June 2019, the Group recorded an unaudited revenue of approximately HK$15,917,000, representing an increase of approximately 149.2% as compared with approximately HK$6,387,000 for the last corresponding period. An unaudited loss attributable to the owners of the Company of approximately HK$28,122,000 (2018: loss of approximately HK$84,031,000), representing a decrease of 66.5%, was recorded during the six months ended 30 June 2019 which was mainly attributable to: (i) finance costs of approximately HK$16,355,000 (2018: approximately HK$61,910,000) which included the interest expense on convertible bonds of HK$14,177,000 (2018: approximately HK$14,177,000); and interest expense of approximately HK$2,169,000 (2018: approximately HK$1,508,000) on other borrowings raised for financing the projects of the Group's operations; and (ii) amortisation of intangible assets of HK$4,283,000 (2018: approximately HK$27,242,000).

The decrease in loss was mainly because there was no imputed interest charged on the carrying amount of convertible bonds and promissory notes during the period ended 30 June 2019 (2018: approximately HK$46,225,000) as the liability component of convertible bonds and the promissory notes has been remeasured to the amounts repayable on demand during the year ended 31 December 2018.

### 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**") on 13 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$9,688,000 was recorded for the six months ended 30 June 2019 (2018: loss of approximately HK$30,315,000). The decrease in segment loss was mainly attributable to the decrease in amortisation of intangible assets by approximately HK$22,959,000 to HK$4,283,000 (2018: approximately HK$27,242,000). The amortisation of intangible assets is calculated over the useful life of 7 patents for "Ultra Performance Plant Control System" ("**UPPC System**") held under Weldtech Group.

During the year ended 31 December 2018, there was an impairment of goodwill of approximately HK$432,403,000 and intangible assets of approximately HK$541,453,000. The goodwill and intangible assets were arised from 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. During the period ended 30 June 2019, the amortisation of intangible assets of HK$4,283,000 was calculated based on the carrying amount of HK$101,000,000 taken into account the impairment as at 31 December 2018 over its remaining useful life.

The decrease in valuation 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 was resulted.

During the period ended 30 June 2019, Weldtech Group has focused on the completion of the projects signed in previous years. The increase in revenue was mainly resulted from the completion of a procurement project which contributed a revenue of HK$13.3 million in the first half of 2019. 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. Before deducting the amortisation of intangible assets and the respective deferred tax movement, Weldtech Group has generated a segment loss of approximately HK$6,048,000 (2018: segment loss of approximately HK$3,073,000) 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.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group's cash and bank balances amounted to approximately HK$13,581,000 (31 December 2018: approximately HK$22,986,000), and it had outstanding convertible bonds of approximately HK$945,158,000 (31 December 2018: approximately HK$945,158,000) and promissory notes of approximately HK$127,400,000 (31 December 2018: approximately HK$127,400,000).

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately HK$1,094,026,000 (31 December 2018: approximately HK$1,076,923,000) and net liabilities of approximately HK$908,425,000 (31 December 2018: approximately HK$880,991,000); and the Group had promissory notes of approximately HK$127,400,000 and other borrowings of approximately HK$22,648,000 which was expired and the other borrowings carried the default interest on 17% interest rate per annum. The directors of the Company adopted the going concern basis in the preparation of condensed consolidated financial statements and implemented the measures as set out in Note 1 to the condensed consolidated financial statements in order to improve the working capital and liquidity and cash flow position of the condensed Group.

In the opinion of the directors of the Company, taking into account the various measures/arrangements, 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 condensed consolidated financial statements on a going concern basis.

The gearing ratio of the Group as at 30 June 2019, which is calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total capital, was 624% (31 December 2018: 561%).

As at 30 June 2019, the Group's other borrowings of approximately HK$22,648,000 (31 December 2018: HK$22,532,000) were secured by corporate guarantees granted by the Company.

## CAPITAL STRUCTURE

As at 30 June 2019, the Company's number of issued ordinary shares was 2,306,502,816 ("**Share(s)**") (as at 31 December 2018: 2,306,502,816 Shares).

As at 30 June 2019, 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 six months ended 30 June 2019, no new Shares were issued from the conversion of CB A.

As at 30 June 2019, 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 six months ended 30 June 2019, no new Shares were issued from the conversion of CB B.

## CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any charges on its assets (31 December 2018: Nil) and did not have any material contingent liabilities (31 December 2018: Nil).

## CAPITAL COMMITMENT

As at 30 June 2019, the Group had capital commitments, which were contracted but not provided for, in respect of construction contract of approximately HK$5,959,000 (31 December 2018: approximately HK$6,679,000).

## FOREIGN CURRENCY 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.

## MATERIAL INVESTMENTS, ACQUISITION AND DISPOSALS

Save as disclosed elsewhere in this announcement, there were no material investments, acquisitions or disposals of subsidiaries during the six months ended 30 June 2019.

## STAFF AND REMUNERATION

As at 30 June 2019, the Group had 34 (2018: 36) employees and total staff costs incurred during the period under review amounted to approximately HK$4,277,000 (2018: approximately HK$5,490,000). The Group offers competitive remuneration packages to its employees.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

## LITIGATION

There was no litigation, arbitration or claim of material importance in which the Group was engaged or pending or which was threatened against the Group so far as known to the Board.

## SIGNIFICANT EVENTS

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.

### The Scheme

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.

The outstanding indebtedness of the Company included, but not limited to, (i) convertible bonds in the principal amount of approximately HK$945.2 million; (ii) the interest accrued on the outstanding principal amount of the convertible bonds in the amount of approximately HK$62.8 million as at 30 August 2019 (assuming the effective date of the Scheme to be 30 August 2019) (the "**Interest**"); and (iii) promissory notes in the principal amount of approximately HK$127.4 million.

The promissory notes matured on 31 December 2018. The failure to repay the promissory notes on their maturity has led to cross default of the convertible bonds, notwithstanding the latter's maturity date on 31 December 2023. As such, the Company proposed to enter into and implement the Scheme to settle the aforesaid liabilities owed to the holders of the convertible bonds and the promissory notes (the "**Creditors**").

The Company filed 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 to, (the "**Convening Hearing**") among other things, convene a meeting ("**Scheme Meeting**") which is to settle and discharge all liabilities under the convertible bonds and promissory notes issued by the Group with certain creditors. On 14 May 2019, the Court granted the Convening Order and the Scheme Meeting was held and approved by requisite statutory majorities of the Creditors on 28 June 2019. The Scheme was sanctioned by the Court at the Court Hearing held on 20 August 2019. The registration date of the order sanctioning the scheme granted by the Court with Companies Registry in Hong Kong ("**Effective Date**") is expected to be on 30 August 2019. The Company shall make further announcement(s) of the Scheme as and when appropriate.

Please refer to the announcements dated 10 January 2019, 15 May 2019, 4 June 2019, 14 June 2019, 28 June 2019, 4 July 2019, 11 July 2019 and 20 August 2019 and the circular dated 11 July 2019.

## OUTLOOK AND PROSPECT

Regarding the energy saving solutions business, 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 industry, particularly for small and medium-sized projects. Macro-economic factors also fluctuate 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 automation or energy saving systems platforms to customers in which such products would require relatively lower 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.

The Management believed that 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 net deficit to positive net asset value position.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2019.

## CORPORATE GOVERNANCE

During the six months ended 30 June 2019 and up to date of this announcement, 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, except for the following deviations:

Under code provision A.2.1 of the CG Code, the roles of chairman (the "**Chairman**") and chief executive ("**CE**") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CE should be clearly established and set out in writing. During the period under review, the Company did not appoint a Chairman or CE. The functions of the Chairman and CE are performed by the Directors. The Board will review the current practice from time to time and make appropriate changes if necessary.

## DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of information during the six months ended 30 June 2019 on Directors are as follows:

Mr. Ng Kay Kwok ceased to be an independent non-executive director of Merdeka Financial Services Group Limited (Stock Code: 8163), a company listed on GEM of the Exchange, with effect from 1 April 2019.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors, following a specific enquiry by the Company, have confirmed that they have complied with the required standard as set out in the Model Code throughout the period under review.

## AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2019. The Audit Committee has approved the unaudited interim financial statements.

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

Hong Kong, 27 August 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.*