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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 2020

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 2020 together with the unaudited comparative figures for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**644**	15,917
Cost of operation		**(286)**	(14,093)
Gross profit		**358**	1,824
Other income	*5*	**2,022**	1,838
Net allowance for expected credit losses on trade receivables and finance lease receivables		**(8,474)**	(715)
Amortisation of intangible assets		**(2,270)**	(4,283)
Selling expenses		**(862)**	(1,305)
Administrative and operating expenses		**(9,560)**	(9,768)
Loss from operations		**(18,786)**	(12,409)
Finance costs	*6*	**(1,353)**	(16,355)
Loss before taxation	*7*	**(20,139)**	(28,764)
Taxation	*8*	**341**	642
Loss for the period		**(19,798)**	(28,122)

	Notes	Six months ended 30 June **2020** ***HK$'000*** **(Unaudited)**	 2019 *HK$'000* (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:			
Exchange differences arising on translation of foreign operations		**(1,789)**	686
Other comprehensive income/(loss) for the period, net of tax		**(1,789)**	688
Total comprehensive loss for the period, net of tax		**(21,587)**	(27,434)
Loss for the period attributable to owners of the Company		**(19,798)**	(28,122)
Total comprehensive loss for the period attributable to owners of the Company		**(21,587)**	(27,434)
Loss per share	*10*		
– Basic and diluted, HK cents		**(0.53)**	(1.22)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	Notes	**30 June 2020** *HK$'000* **(Unaudited)**	31 December 2019 *HK$'000* (Audited)
Non-current assets			
Intangible assets		**46,730**	49,000
Property, plant and equipment		**118**	116
Right-of-use assets		**139**	374
Trade receivables	*11*	**19,952**	25,126
Finance lease receivables		**42,357**	51,313
		109,296	125,929
Current assets			
Inventories		**549**	562
Trade and bills receivables	*11*	**28,090**	25,457
Prepayments, deposits and other receivables		**1,599**	1,183
Finance lease receivables		**23,825**	26,550
Cash and bank balances		**2,353**	11,076
		56,416	64,828
Current liabilities			
Trade and other payables	*12*	**15,069**	17,705
Lease liabilities		**126**	376
Other borrowings		**21,909**	22,318
		37,104	40,399
Net current assets		**19,312**	24,429
Total assets less current liabilities		**128,608**	150,358

	Notes	**30 June 2020** *HK$'000* **(Unaudited)**	31 December 2019 *HK$'000* (Audited)
Non-current liabilities			
Deferred tax liabilities		**7,009**	7,350
		7,009	7,350
Net assets		**121,599**	143,008
Capital and reserves			
Share capital		**3,148,629**	3,148,629
Reserves		**(3,027,030)**	(3,005,621)
Total equity		**121,599**	143,008

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2019 as contained in the Company's annual report 2019, 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 2020.

The financial information relating to the financial year ended 31 December 2019 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 2019 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 2019. The auditors' report had been qualified. For the year ended 31 December 2018, the auditors had issued a disclaimer of opinion which stated that the auditors were unable to determine whether any adjustments were necessary to write down the carrying value of the intangible assets as at 31 December 2018, i.e. also the opening balances as at 1 January 2019. Any adjustments found to be necessary on the carrying value of the intangible assets as at 31 December 2018 would have consequential effects on the impairment loss recognised on intangible assets for the year ended 31 December 2019. Except for the possible effects of the matter described, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019.

Going Concern

For the period ended 30 June 2020, the Group incurred a net loss of approximately HK$19,798,000 (2019: approximately HK$28,122,000). The Directors 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. Subsequent to the period end, an aggregate of 200,000,000 Placing Shares have been successfully placed by the Placing Agent to not less than six Placees at the Placing Price of HK$0.04 per Placing Share on 27 July 2020 pursuant to the terms and conditions of the Placing Agreement. The net proceeds from the Placing are approximately HK$7,760,000. The Group will continue to explore various funding sources.

(ii) *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.

The Directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. The Directors are of the opinion that, taking into account the above mentioned 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 are of the opinion that it is appropriate to prepare the consolidated financial statements for the period ended 30 June 2020 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.

2. CHANGES IN ACCOUNTING POLICIES

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendment to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The adoption of these amendments to HKFRSs has no material impact on the Group's result and financial position for the current or prior periods. The Group has not applied any new standard or amendment that is not effective for the current accounting period.

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 2020 and 2019, 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 two principal geographical areas – Hong Kong and the People's Republic of China (the "**PRC**").

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**	
	Six months ended 30 June		**30 June**	31 December
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
The PRC	**644**	15,917	**109,296**	125,929
	644	15,917	**109,296**	125,929

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	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Disaggregation of revenue from contracts with customers		
Recognised over time		
Energy saving solutions income	**147**	14,279
Recognised at a point in time		
Repair and maintenance service income	**497**	480
Revenue from contracts with customers	**644**	14,759
Revenue from other source		
Energy saving solutions income under finance leases	**–**	1,158
	644	15,917

5. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**6**	57
Interest income on finance lease receivables	**171**	706
Interest income on extended trade receivables	**544**	1,069
Government grants	**81**	–
Reversal of interest expense on other borrowings *(note (i))*	**1,210**	–
Others	**10**	6
	2,022	1,838

Note:

(i) During the year ended 31 December 2017, a subsidiary of the Group entered into a loan agreement with a lender for other borrowing with principal amount of approximately RMB20,000,000, which is secured by a guarantee provided by the Company, and carried a fixed interest rate at 12% per annum. On 28 September 2018, the loan agreement was expired and carried the default interest rate at 17% per annum. The Group was negotiating the extended agreement with the lender of other borrowing during the years ended 31 December 2018 and 2019.

On 24 March 2020, the Group entered into a supplemental loan agreement with the lender of other borrowing to extend the maturity date of other borrowing to 31 December 2021 and carried a fixed interest rate at 12% per annum, pursuant to terms and conditions under the supplemental loan agreement. The reversal represented the adjustment on interest expense provision from default interest rate at 17% to fixed rate at 12% per annum.

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest expense on other borrowings	**1,342**	2,169
Interest expense on convertible bonds	**–**	14,177
Interest on lease liabilities	**11**	9
	1,353	16,355

7. LOSS BEFORE TAXATION

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Staff costs (including Directors' remuneration):		
– Directors' fee	**890**	900
– Salaries, bonus and wages	**4,679**	2,937
– Contribution to retirement benefits schemes	**287**	440
	5,856	4,277
Amortisation of intangible assets	**2,270**	4,283
Depreciation of property, plant and equipment	**12**	163
Depreciation expenses on right-of-use assets	**235**	268
Expenses relating to short-term lease	**300**	153
Cost of inventories sold	**286**	14,093
Share-based payment expenses	**178**	–
Net allowances for expected credit losses on trade receivables and finance lease receivables		
– Allowance for expected credit losses on trade receivables	**6,745**	788
– Allowance for expected credit losses on finance lease receivables	**8,825**	–
– Reversal of allowance for expected credit losses on trade receivables	**(6,912)**	(18)
– Reversal of allowance for expected credit losses on finance lease receivables	**(184)**	(55)
	8,474	715

8. TAXATION

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Deferred taxation		
Credit for the period	**(341)**	(642)

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 2020 (six months ended 30 June 2019: Nil).

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

10. 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	
	2020	2019
	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	**(19,798)**	(28,122)

	Six months ended 30 June	
	2020	2019
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**3,724,981**	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 2020 and 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.

11. TRADE AND BILLS RECEIVABLES

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Trade receivables with normal credit terms	**937**	9,372
Less: Allowance for expected credit losses	**(430)**	(7,167)
	507	2,205
Trade receivables with extended credit terms	**58,258**	51,934
Less: Allowance for expected credit losses	**(11,179)**	(4,810)
	47,079	47,124
Total trade receivables, net of allowance for expected credit losses	**47,586**	49,329
Less: Non-current portion of trade receivables with extended credit terms	**(19,952)**	(25,126)
Current portion of trade receivables	**27,634**	24,203
Bills receivables	**456**	1,254
	28,090	25,457

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

	Extended Credit terms		**Normal Credit terms**		**Total**	
	30 June 2020 ***HK$'000*** **(Unaudited)**	31 December 2019 *HK$'000* (Audited)	**30 June 2020** ***HK$'000*** **(Unaudited)**	31 December 2019 *HK$'000* (Audited)	**30 June 2020** ***HK$'000*** **(Unaudited)**	31 December 2019 *HK$'000* (Audited)
0 to 90 days	**–**	–	**145**	1,020	**145**	1,020
91 to 180 days	**–**	–	**71**	–	**71**	–
Over 180 days	**47,079**	47,124	**291**	1,185	**47,370**	48,309
	47,079	47,124	**507**	2,205	**47,586**	49,329

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. The Directors consider that these balances are fully recoverable.

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.

Net reversal of allowance for expected credit losses of approximately HK$167,000 has been recognised for trade receivables during the period ended 30 June 2020 (2019: net allowance of approximately HK$770,000).

12. TRADE AND OTHER PAYABLES

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**3,417**	6,416
Accrued service fee for acquisition of a subsidiary	**3,871**	3,871
Accrued expenses	**1,874**	2,356
Interest payables	**4,235**	4,293
Other payables	**1,672**	769
	15,069	17,705

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

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**2,742**	4,655
91 to 180 days	**43**	875
181 to 365 days	**44**	20
Over 365 days	**588**	866
	3,417	6,416

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 2020, the Group recorded an unaudited revenue of approximately HK$644,000, representing a decrease of approximately 96.0% as compared with approximately HK$15,917,000 for the last corresponding period. An unaudited loss attributable to the owners of the Company of approximately HK$19,798,000 (2019: loss of approximately HK$28,122,000) was recorded which was mainly attributable to: (i) net allowance for expected credit losses on trade and finance lease receivables of approximately HK$8,474,000 (2019: approximately HK$715,000); (ii) an amortisation of the intangible assets of approximately HK$2,270,000 (2019: approximately HK$4,283,000); and (iii) finance costs of approximately HK$1,353,000 (2019: approximately HK$16,355,000) which included the interest expense of approximately HK$1,342,000 (2019: approximately HK$2,169,000) on other borrowings raised for project financing of the Group.

The slight decrease in loss was mainly because the convertible bonds have been converted into shares under the scheme of arrangement (the "**Scheme**") on the closing date, 25 October 2019 and there was no interest expense on the convertible bonds during the period ended 30 June 2020 (2019: approximately HK$14,177,000); offset by the increase in net allowance for expected credit losses on trade and finance lease receivables of approximately HK$8,474,000 (2019: approximately HK$715,000).

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 ("**Energy Saving Business**").

With respect to the segment of design and provision of energy saving solutions, a segment loss of approximately HK$15,902,000 was recorded for the six months ended 30 June 2020 (2019: loss of approximately HK$9,688,000). The increase in segment loss was mainly attributable to the increase in net allowance for expected credit losses on trade and finance lease receivables of approximately HK$8,474,000 (2019: approximately HK$715,000); offset by the decrease in amortisation of intangible assets of approximately HK$2,270,000 (2019: approximately HK$4,283,000). 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 period ended 30 June 2020, the decrease of revenue was mainly due to halted business activities throughout PRC due to the outbreak of the novel coronavirus (COVID-19) pandemic (the "**Pandemic**"). Operational delays in terms of site visits, meetings and project implementation are noted due to the different travel restrictions during the period. Certain potential projects have been upheld due to the operational delays and the customers' hesitation. Also, the Group was cautious in project screening especially in evaluating the effect of the Pandemic on customers' business and financial position in order to secure the recoverability. Weldtech Group is engaged in the Energy Saving Business regarding heating, ventilation and air conditioning (the "**HVAC**") system, our customers are mainly commercial properties like hotels, office buildings, shopping malls and industrial plants. Due to the Pandemic, there was a significant shrink of business activities of our customers such as the decreased occupancy rate for hotels and decrease in production volume for factories. Before deducting the amortisation of intangible assets and the respective deferred tax movement, Weldtech Group has generated a segment loss of approximately HK$13,973,000 (2019: segment loss of approximately HK$6,048,000) to the Group.

During the year ended 31 December 2019, there was an impairment of intangible assets of approximately HK$43,425,000. The impairment of intangible assets represents the impairment of intangible assets held under Weldtech Group since the Acquisition. The Company engaged an independent qualified valuer to assess the value in use of Weldtech Group as at 31 December 2019 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 People's Republic of China (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 was mainly based on the following factors: (i) the slow-down in the PRC economy including but not limited to the US-China trade war and the outbreak of the Pandemic that weakened the market 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.

The Pandemic since early 2020 has brought additional uncertainties in the Group's operating environment and has impacted the group's operations and financial position. As far as the Group's businesses are concerned, after the central government of China imposed a lockdown in Wuhan and other cities in late January 2020, the Group's PRC operation was forced to suspend. Until mid-April 2020, most, if not all, business activities, including but not limited to site visits, meetings and project implementations have been halted due to the different travel restrictions. On the other hand, the Company noted there was delay in receivable collection from its customers, especially for those customers located near the heavily affected areas and under significant impact of the Pandemic. The Company has taken necessary steps in response to the situation, including but not limited to negotiations with customers; issue payment reminders; and obtain legal opinion in due course. During the period ended 30 June 2020, net allowance for expected credit losses on trade and finance lease receivables of approximately HK$8,474,000 (2019: approximately HK$715,000) was resulted.

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 30 June 2020, the total assets decreased to approximately HK$165,712,000 (31 December 2019: approximately HK$190,757,000). The decrease was mainly attributable to: (i) net allowance for expected credit losses on trade and finance lease receivables of approximately HK$8,474,000 (2019: approximately HK$715,000); (ii) an amortisation of intangible assets of HK$2,270,000 (2019: approximately HK$4,283,000); and (iii) the decrease in cash and bank balances by approximately HK$8,723,000.

As at 30 June 2020, the Group held intangible assets amounting to approximately HK$46,730,000 (31 December 2019: approximately HK$49,000,000). The intangible assets represent 7 patents related to the UPPC System used by the Energy Saving Business.

As at 30 June 2020, the Group held finance lease receivables amounting to approximately HK$66,182,000 (31 December 2019: approximately HK$77,863,000).

As at 30 June 2020, total liabilities decreased to approximately HK$44,113,000 (31 December 2019: approximately HK$47,749,000). The total liabilities mainly represented the trade and other payables of approximately HK$15,069,000 (31 December 2019: approximately HK$17,705,000); and other borrowings of approximately HK$21,909,000 (31 December 2019: approximately HK$22,318,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the period ended 30 June 2020, the Group finances its operations by internally generated cashflows and borrowings. As at 30 June 2020, the Group has net current assets of approximately HK$19,312,000 (31 December 2019: net current assets of approximately HK$24,429,000). As at 30 June 2020, the Group's cash and bank balances amounted to approximately HK$2,353,000 (31 December 2019: approximately HK$11,076,000).

For the period ended 30 June 2020, the Group incurred a net loss of approximately HK$19,798,000 (2019: approximately HK$28,122,000). The Directors 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. Subsequent to the period end, an aggregate of 200,000,000 placing Shares have been successfully placed by the placing agent to not less than six placees at the placing price of HK$0.04 per placing Share on 27 July 2020 pursuant to the terms and conditions of the placing agreement. The net proceeds from the placing are approximately HK$7,760,000. The Group will continue to explore various funding sources.

(ii) 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.

The Directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. The Directors are of the opinion that, taking into account the above mentioned 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 are of the opinion that it is appropriate to prepare the consolidated financial statements for the period ended 30 June 2020 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.

The gearing ratio of the Group as at 30 June 2020, which is calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total capital (as calculated by total equity plus net debts), was 13.9% (31 December 2019: 7.3%).

As at 30 June 2020, the Group's other borrowings of approximately HK$21,909,000 (31 December 2019: approximately HK$22,318,000) were secured by the corporate guarantees granted by the Company. During the year ended 31 December 2017, a subsidiary of the Group entered into a loan agreement with a lender for other borrowing with principal amount of approximately RMB20,000,000, which is secured by a guarantee provided by the Company, and carried a fixed interest rate at 12% per annum. On 28 September 2018, the loan agreement was expired and carried the default interest rate at 17% per annum. The Group was negotiating the extended agreement with the lender of other borrowing during the years ended 31 December 2018 and 2019. On 24 March 2020, the Group entered into a supplemental loan agreement with the lender of other borrowing to extend the maturity date of other borrowing to 31 December 2021 and carried a fixed interest rate at 12% per annum, pursuant to terms and conditions under the supplemental loan agreement.

As at 30 June 2020, the Company's number of issued ordinary shares was 3,724,981,811 ("**Share(s)**") (as at 31 December 2019: 3,724,981,811 Shares).

Subsequent to the end of the reporting period, the Company has completed placing of 200,000,000 new Shares on 27 July 2020 at the placing price of HK$0.04 per share. For further details, please refer to "Fund Raising Activities" section of this announcement.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any charges on its assets (31 December 2019: Nil) and did not have any material contingent liabilities (31 December 2019: Nil).

CAPITAL COMMITMENT

As at 30 June 2020, the Group had capital commitments, which were contracted but not provided for, in respect of construction contract of approximately HK$285,000 (31 December 2019: approximately HK$5,872,000).

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 period under review, 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 2020.

SUBSEQUENT EVENTS

Events subsequent to the period under review are as follows:

Fund Raising Activities

On 13 July 2020, the Company entered into the placing agreement with the placing agent, pursuant to which the Company agreed to place through the placing agent, on a best-effort basis, up to 200,000,000 new Shares to not less than six independent placees at the placing price of HK$0.04 per placing Share.

On 27 July 2020, all the conditions set out in the placing agreement had been fulfilled and the completion of the placing took place on 27 July 2020. An aggregate of 200,000,000 new Shares have been successfully placed by the placing agent to not less than six placees at the placing price of HK$0.04 per placing Share pursuant to the terms and conditions of the placing agreement. The net proceeds from the placing are approximately HK$7,760,000, which the Company intends to apply the net proceeds (i) for general working capital of the Group and/or (ii) for possible investments in the future when opportunities arise.

For further details, please refer to the announcements of the Company dated 13 July 2020 and 27 July 2020.

Share Consolidation

On 22 July 2020, the Company announced its proposal to implement the share consolidation (the "**Share Consolidation**") on the basis that every ten (10) ordinary share(s) of the Company ("**Existing Shares**") in the share capital of the Company be consolidated into one (1) ordinary share(s) of the Company ("**Consolidated Shares**") and the existing board lot of 8,000 Shares remains unchanged upon the Share Consolidation becoming effective.

The extraordinary general meeting of the Company (the "**EGM**") was convened and held on 24 August 2020 for the shareholders to consider and, if thought fit, approve the Share Consolidation. The shareholders of the Company passed an ordinary resolution approving the Share Consolidation at the EGM and the Share Consolidation became effective on 26 August 2020.

The Company has outstanding share options (the "**Share Options**") entitling the holders thereof to subscribe for a total of 116,203,500 Existing Shares under the share option scheme. As a result of the Share Consolidation, immediately upon the Share Consolidation becoming effective on 26 August 2020, adjustments have been made to the exercise price of the Share Options and the number of Consolidated Shares to be issued upon the exercise of the outstanding Share Options. Details of the aforesaid adjustments have been disclosed in the Company's announcement dated 24 August 2020.

For further details relating to the Share Consolidation, please refer to the circular of the Company dated 3 August 2020 and the announcements of the Company dated 19 August 2020, 20 August 2020 and 24 August 2020 regarding the Share Consolidation.

STAFF AND REMUNERATION

As at 30 June 2020, the Group had 33 (2019: 34) employees and total staff costs incurred during the period under review amounted to approximately HK$5,856,000 (2019: approximately HK$4,277,000). The Group offers competitive remuneration packages to its employees. Other benefits include share options granted or to be granted under the share option scheme of the Company.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: 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.

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, Weldtech Group will continue to target potential customers for buyout projects to improve cashflow of 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. 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 Weldtech Group.

Global business environment is still challenging amid the Pandemic and tensed Sino-US relationship in which cause additional uncertainties in the operating environment in China in 2020. As far as the Group's businesses are concerned, customer demand, budget for capital expenditure are expected to be sallow; operational delays in terms of site visits, meetings and project implementation are noted due to the transportation restrictions during the period. Although some cities in the PRC gradually ceased the lockdown measures, it is expected that market sentiments still took long time to fully recover and back to normal unless preventive measures are available to prevent the Pandemic. Also, global oil prices have plunged since early April might cause significant impact to the Group's energy saving operation because cheaper energy price will subsequently reduce the demand in energy saving services. The management is working on getting business activity on-going again. The Group will take feasible and necessary measures to lower the impact from the economic downturn. However, management remains cautious for the year 2020.

The Group will continue to explore and capture business opportunities in the green sector, including air-conditioning energy saving projects, and also the related construction, installation, procurement, and design businesses. The Company is actively seeking and exploring other business opportunities in China as well as outside China. For financing, 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 securities during the six months ended 30 June 2020.

CORPORATE GOVERNANCE

During the six months ended 30 June 2020 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 Company did not appoint any chairman or CE during the period under review, reason being the functions of the chairman and CE are performed by the executive Directors collectively. The Board will review the current practice from time to time and make appropriate changes if considered necessary.

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. Certain Directors were unable to attend the annual general meeting of the Company held on 15 June 2020 due to other important business engagement.

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 2020 on Directors are as follows:

Dr. Li Ai Guo has retired as an executive director of the Company upon conclusion of the annual general meeting held on 15 June 2020.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of 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 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 2020. 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 2020

As at the date of this announcement, the Board comprises 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.