



**The Hong Kong Building
and Loan Agency Limited**
香港建屋貸款有限公司

(Stock Code: 145)

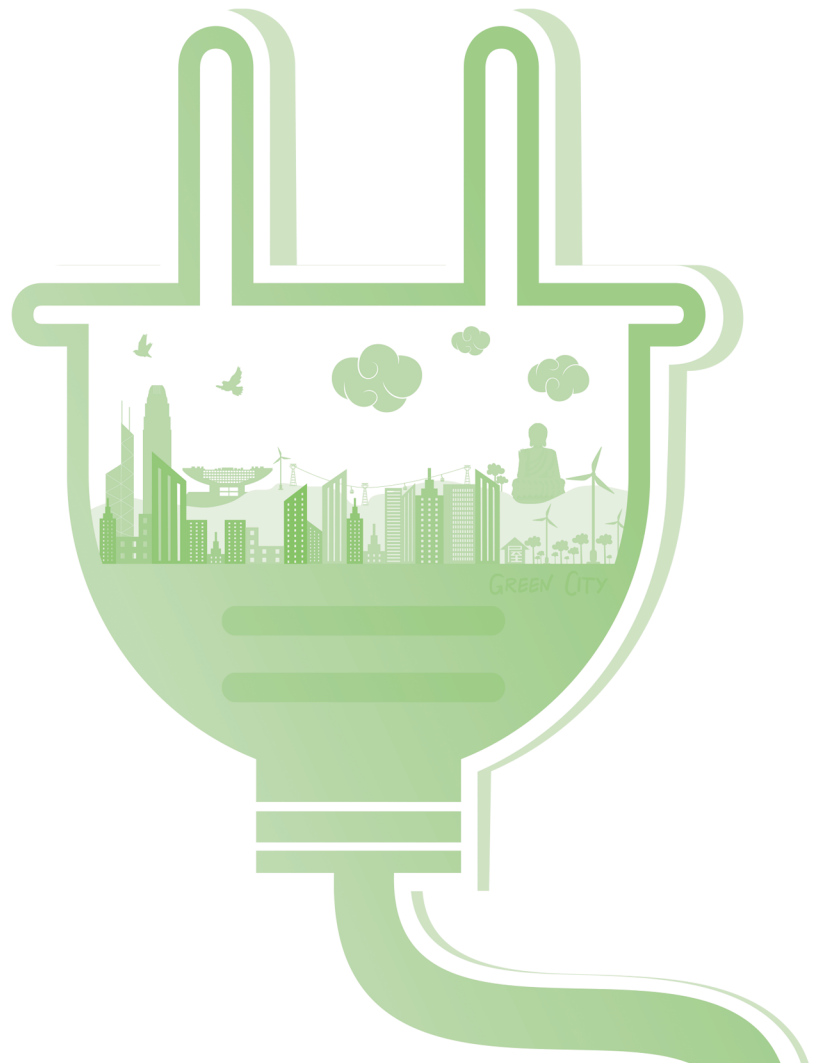


2020

INTERIM REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chong Kok Leong
Mr. Zhuang Miao Zhong

Independent Non-executive Directors

Mr. Choy Hiu Fai, Eric
Mr. Huang Lizhi
Mr. Ng Kay Kwok

AUDIT COMMITTEE

Mr. Ng Kay Kwok (*Chairman*)
Mr. Choy Hiu Fai, Eric
Mr. Huang Lizhi

NOMINATION COMMITTEE

Mr. Choy Hiu Fai, Eric (*Chairman*)
Mr. Huang Lizhi
Mr. Ng Kay Kwok

REMUNERATION COMMITTEE

Mr. Choy Hiu Fai, Eric (*Chairman*)
Mr. Huang Lizhi
Mr. Ng Kay Kwok

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

COMPANY SECRETARY

Mr. Mak Chun Wing (*appointed on 1 July 2020*)
Mr. Cheung Yuk Chuen (*resigned on 30 June 2020*)

PRINCIPAL BANKERS

China CITIC Bank International Limited
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
The Hongkong and Shanghai Banking
Corporation Limited

LEGAL ADVISOR

WT Law Offices

SHARE REGISTRAR

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Unit D, 7/F
Seabright Plaza
9-23 Shell Street
North Point
Hong Kong

STOCK CODE

145

WEBSITE

<http://www.hkbla.com.hk>

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

| | Notes | Six months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|
| | | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (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) |



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

| | Notes | Six months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|
| | | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Other comprehensive income/(loss) for the period, net of tax | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | | – | 2 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| 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 | 11 | 46,730 | 49,000 |
| Property, plant and equipment | 12 | 118 | 116 |
| Right-of-use assets | | 139 | 374 |
| Trade receivables | 14 | 19,952 | 25,126 |
| Finance lease receivables | 13 | 42,357 | 51,313 |
| | | 109,296 | 125,929 |
| Current assets | | | |
| Inventories | | 549 | 562 |
| Trade and bills receivables | 14 | 28,090 | 25,457 |
| Prepayments, deposits and other receivables | 15 | 1,599 | 1,183 |
| Finance lease receivables | 13 | 23,825 | 26,550 |
| Cash and bank balances | | 2,353 | 11,076 |
| | | 56,416 | 64,828 |
| Current liabilities | | | |
| Trade and other payables | 16 | 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 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

AT 30 JUNE 2020

| | 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 | 17 | 3,148,629 | 3,148,629 |
| Reserves | | (3,027,030) | (3,005,621) |
| Total equity | | 121,599 | 143,008 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

| | Share capital HK\$'000 | Share options reserve HK\$'000 | Convertible bonds reserve HK\$'000 | Financial assets at fair value through other comprehensive income reserve HK\$'000 | Exchange reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|------------------------------|---|---|---|---------------------------------|-----------------------------------|-------------------|
| At 1 January 2019 (Audited) | 1,344,398 | 607 | 672,631 | (1,278) | (1,864) | (2,895,485) | (880,991) |
| Loss for the period | - | - | - | - | - | (28,122) | (28,122) |
| Other comprehensive income for the period | - | - | - | 2 | 686 | - | 688 |
| Total comprehensive income/(loss) for the period | - | - | - | 2 | 686 | (28,122) | (27,434) |
| Transfer upon lapse of share options | - | (607) | - | - | - | 607 | - |
| At 30 June 2019 (Unaudited) | 1,344,398 | - | 672,631 | (1,276) | (1,178) | (2,923,000) | (908,425) |
| At 1 January 2020 (Audited) | 3,148,629 | - | - | - | (1,418) | (3,004,203) | 143,008 |
| Loss for the period | - | - | - | - | - | (19,798) | (19,798) |
| Other comprehensive loss for the period | - | - | - | - | (1,789) | - | (1,789) |
| Total comprehensive loss for the period | - | - | - | - | (1,789) | (19,798) | (21,587) |
| Equity settled share option transactions | - | 178 | - | - | - | - | 178 |
| At 30 June 2020 (Unaudited) | 3,148,629 | 178 | - | - | (3,207) | (3,024,001) | 121,599 |



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

| | Note | Six months ended 30 June | |
|--|------|---------------------------------|---------------------------------|
| | | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Net cash flow used in operating activities | | (6,256) | (9,550) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (17) | (482) |
| Bank interest received | | 6 | 57 |
| Net cash flow used in investing activities | | (11) | (425) |
| Cash flows from financing activities | | | |
| Repayments of lease liabilities | | (261) | (229) |
| Net cash flow used in financing activities | | (261) | (229) |
| Net decrease in cash and cash equivalents | | (6,528) | (10,204) |
| Cash and cash equivalents at the beginning of the period | | 11,076 | 22,986 |
| Effect of foreign exchange rate changes on the balance of cash held in foreign currencies | | (2,195) | 799 |
| Cash and cash equivalents at the end of the period | | 2,353 | 13,581 |
| Analysis of balances of cash and cash equivalents | | | |
| Cash and bank balances | | 2,353 | 13,581 |

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 (“**HKS**”), 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION (continued)**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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 1 January 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.

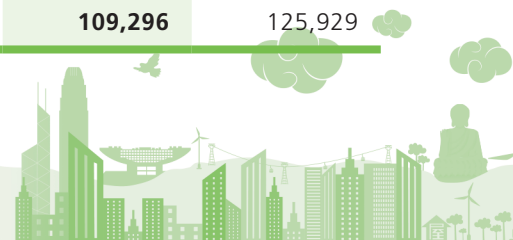
During the period ended 30 June 2020 and 2019, the Group operates in one operating segment which is the provision of design and provision of energy saving solutions. A single management team reports to the Directors of the Group (being the chief operating decision-maker) who comprehensively manages the 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 2020 | 2019 | 30 June 2020 | 31 December 2019 |
| | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Audited) |
| The PRC | 644 | 15,917 | 109,296 | 125,929 |
| | 644 | 15,917 | 109,296 | 125,929 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 |

Notes:

- (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 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE SIX MONTHS ENDED 30 JUNE 2020

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).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

11. INTANGIBLE ASSETS

| | Patent HK\$'000 |
|--|---------------------------|
| Cost | |
| At 31 December 2019 and 1 January 2020 (Audited) | 889,901 |
| Additions | – |
| At 30 June 2020 (Unaudited) | 889,901 |
| Accumulated amortisation and impairment | |
| At 31 December 2019 and 1 January 2020 (Audited) | 840,901 |
| Amortisation expenses | 2,270 |
| At 30 June 2020 (Unaudited) | 843,171 |
| Carrying amounts | |
| At 30 June 2020 (Unaudited) | 46,730 |
| At 31 December 2019 (Audited) | 49,000 |

Notes:

- (a) The intangible assets represent 7 patents regarding the acquired and owned “Ultra Performance Plant Control System” (“UPPC”) for its novelty and industrial applicability in the PRC under cash generating units of design and provision of energy saving solutions business.
- (b) As at 30 June 2020, the remaining useful life of the patents for UPPC system is 10.3 years (31 December 2019: 10.8 years).

Patents have been allocated for impairment testing purposes to the following cash generating units (“CGU”):

- Design and provision of energy saving solutions (“**Energy Saving Business**”)



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

11. INTANGIBLE ASSETS (continued)

Impairment testing on patents

The recoverable amount of the above CGU was determined on the basis of value in use calculations. The recoverable amount is based on certain assumptions. The value in use calculations use cash flow projections based on the financial budgets approved by the management covering a 10-year period. Given that the expected receipt of future economic benefits of projects are phased over its contractual life which generally lasts for 5 to 8 years, the management prepared a 10-year projection in order to better reflect the substance of such business model in the value in use of Energy Saving Business CGU. The pre-tax discount rate used is 20.39% per annum. Cash flows beyond 10-year period are extrapolated using a steady 3% growth rate per annum.

Impairment loss of approximately HK\$43,435,000 were recognised during the year ended 31 December 2019 in respect of patents as the recoverable amount of the CGU was determined to be approximately HK\$49,000,000 as at 31 December 2019. The management engaged an independent professional valuer to assess the value in use of Weldtech Group, which represented the CGU, as at 31 December 2019 which was used to determine the aforementioned impairment amounts, 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.

In the preparation of the profit forecasts for the valuation, the management forecasted decreases in profits and cash flows compared to those forecasted in last year, which were mainly based on the following factors: (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 was mainly due to 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 novel coronavirus (COVID-19) pandemic (the "**Pandemic**") that weakened the market demand; (ii) the fierce competition 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 year ended 31 December 2019, the Weldtech Group has focused on the completion of 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 Group mainly focused on seeking buyout project opportunities from potential customers or through secondary sales from existing customers. Due to the slow-down of the PRC economy, commercial activities as well as energy consumption of existing and potential customers were weakened.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE SIX MONTHS ENDED 30 JUNE 2020

11. INTANGIBLE ASSETS (continued)

Impairment testing on patents (continued)

The key assumption and major parameters used in the value in use calculations are as follows:

| | |
|--|---|
| Budgeted market share | Average market share in the period immediately before the budget period. The values assigned to the assumption reflect past experience. |
| Budgeted gross margin | Average gross margins achieved in the period immediately before the budget period which reflect past experience. |
| Risk-free rate | 3.14% |
| Weighted average cost of capital (pre-tax) | 26.41% |
| Discount rate (pre-tax) | 20.39% |
| Terminal growth rate | 3% |

12. PROPERTY, PLANT AND EQUIPMENT

The total cost of additions to the property, plant and equipment of the Group during the six months ended 30 June 2020 was approximately HK\$17,000 (six months ended 30 June 2019: approximately HK\$482,000).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

13. FINANCE LEASE RECEIVABLES

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|--|--|--|
| Current finance lease receivables | 29,643 | 28,756 |
| Non-current finance lease receivables | 48,448 | 52,537 |
| | 78,091 | 81,293 |
| Less: allowance for expected credit losses | (11,909) | (3,430) |
| | 66,182 | 77,863 |

Leasing arrangements

Certain of the Group's energy saving equipment are leased out under finance leases. All leases are denominated in RMB. The term of finance lease entered into is 5-18 years (31 December 2019: range from 5-18 years).

Amounts receivable under finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|--|--|--|--|
| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
| Not later than 1 year | 29,915 | 31,192 | 29,643 | 28,839 |
| Later than one year and not later than five years | 20,722 | 23,818 | 15,691 | 18,152 |
| Later than five years | 76,835 | 82,802 | 32,757 | 34,302 |
| | 127,472 | 137,812 | 78,091 | 81,293 |
| Less: unearned finance income | (49,381) | (56,519) | – | – |
| Present value of minimum lease payments receivable | 78,091 | 81,293 | 78,091 | 81,293 |
| Allowance for uncollectible lease payments | (11,909) | (3,430) | (11,909) | (3,430) |
| | 66,182 | 77,863 | 66,182 | 77,863 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

13. FINANCE LEASE RECEIVABLES (continued)**Amounts receivable under finance leases** (continued)

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The effective interest rate is approximately 8.45% per annum for the period ended 30 June 2020 (31 December 2019: 8.45%).

Finance lease receivables were considered credit-impaired when the customers fail to settle according to the settlement terms for more than 180 days after taking into consideration the recoverability of collateral and deposits.

Net allowance for expected credit losses of approximately HK\$8,641,000 has been recognised for finance lease receivables during the period 30 June 2020 (2019: net reversal of allowance of approximately HK\$55,000).

14. 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 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14. TRADE AND BILLS RECEIVABLES (continued)

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 – 90 days | – | – | 145 | 1,020 | 145 | 1,020 |
| 91 – 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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|---|--|--|
| Prepayments | 464 | 786 |
| Receivables from disposal of a subsidiary | 9,200 | 9,200 |
| Other receivables | 219 | 91 |
| Refundable rental deposits and other deposits | 916 | 306 |
| | 10,799 | 10,383 |
| Less: accumulated impairment allowance on other receivables | (9,200) | (9,200) |
| | 1,599 | 1,183 |

As at 30 June 2020 and 31 December 2019, the receivables from disposal of a subsidiary amounting to HK\$9,200,000 was overdue and an impairment allowance of HK\$9,200,000 was provided in 2016. No movement in allowance account for the period ended 30 June 2020 and 2019.

16. TRADE AND OTHER PAYABLES

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (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 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

16. TRADE AND OTHER PAYABLES (continued)

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

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (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.

17. SHARE CAPITAL

| | Number of shares | | Share capital | |
|-------------------------------|----------------------------------|-----------------------------|--|--|
| | 30 June 2020 '000 | 31 December 2019 '000 | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
| Issued and fully paid: | | | | |
| At the end of the period/year | 3,724,981 | 3,724,981 | 3,148,629 | 3,148,629 |

18. CAPITAL COMMITMENT

Capital commitments at each of the end of the reporting period contracted but not provided for in the consolidated financial statements were as follows:

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|---|--|--|
| Commitments for the construction contract | 285 | 5,872 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

19. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, during the year the Group had the following transactions with related parties.

(a) Income or expense items:

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Rental expenses to a shareholder | 240 | 107 |
| Interest expense to a related party under common shareholder | 1,342 | – |
| Reversal of interest expense to a related party under common shareholder | (1,210) | – |

The Directors are of the opinion that the transactions were entered into on normal commercial terms and in the ordinary course of the Group's business.

(b) Compensation of key management personnel

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Directors' fees | 890 | 900 |
| Basic salaries, allowances and other benefits | 1,594 | 707 |
| Contribution to retirement benefit | 74 | 57 |
| Share-based payment | 83 | – |
| | 2,641 | 1,664 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

20. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and bills receivables, financial assets at fair value through other comprehensive income, finance lease receivables, deposits and other receivables, cash and bank balances, trade and other payables, other borrowing and lease liabilities. The Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximates to their fair values.

21. EVENTS AFTER REPORTING PERIOD

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 Placing 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 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 pursuant to the terms and conditions of the placing agreement. The net proceeds from the placing are approximately HK\$7,760,000.

For detail, please refer to the announcements dated 13 July 2020 and 27 July 2020.

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.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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).



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE (continued)

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 places 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%).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE (continued)

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 report.

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.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

MATERIAL INVESTMENTS, ACQUISITION AND DISPOSALS

Save as disclosed elsewhere in this report, 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL KEY PERFORMANCE INDICATORS

The Group's net asset value is a key indicator of the financial performance and it decreased to approximately HK\$121,599,000 as at 30 June 2020 (31 December 2019: approximately HK\$143,008,000). During the period ended 30 June 2020, the Group recorded a loss attributable to the owners of the Company of approximately HK\$19,798,000 (2019: loss of approximately HK\$28,122,000).

The net asset value per share was HK\$0.03, which was calculated on the above net assets value and the Company's number of 3,724,981,811 issued ordinary shares as at 30 June 2020.

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.



DISCLOSURE OF ADDITIONAL INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATION

As at 30 June 2020, none of the Directors or chief executives of the Company had any the interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were notified to the Company and the Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests or short position which they were taken or deemed to have under such provision of the SFO) or were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or were otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2020, to the best knowledge of the Directors, interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares and/or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name | Capacity | Number of Shares | Approximate percentage of number of Shares in issue (Note 1) |
|---|------------------------------------|-------------------|---|
| CITIC Group Corporation (Note 2) | Interest of controlled corporation | 1,064,470,087 (L) | 28.58% |
| CITIC Limited (Note 2) | Interest of controlled corporation | 1,064,470,087 (L) | 28.58% |
| China CITIC Bank Corporation Limited (Note 2) | Interest of controlled corporation | 1,064,470,087 (L) | 28.58% |
| CITIC International Financial Holdings Limited (Note 2) | Interest of controlled corporation | 1,064,470,087 (L) | 28.58% |
| CITIC International Assets Management Limited ("CIAM") (Note 2) | Beneficial owner | 1,064,470,087 (L) | 28.58% |
| Jumbo Harbour Group Limited | Beneficial owner | 454,268,172 (L) | 12.20% |
| Hong Kong Mengzai Material Co., Limited | Beneficial owner | 384,416,000 (L) | 10.32% |
| Liu Quanhui ("Mr. Liu") (Note 3) | Interest of controlled corporation | 280,398,778 (L) | 7.53% |
| Niu Fang ("Ms. Niu") (Note 3) | Interest of controlled corporation | 280,398,778 (L) | 7.53% |
| State Energy HK Limited ("State Energy") (Note 3) | Beneficial owner | 280,398,778 (L) | 7.53% |

(L) denotes the long position held in the Shares

Notes:

- As at 30 June 2020, the Company's number of issued Share was 3,724,981,811.
- CIAM is owned as to 46% by CITIC International Financial Holdings Limited, a wholly-owned subsidiary of China CITIC Bank Corporation Limited, which is over 60% indirectly owned by CITIC Limited, which is indirectly owned as to 58.13% by CITIC Group Corporation. By virtue of the SFO, each of CITIC International Financial Holdings Limited, China CITIC Bank Corporation Limited, CITIC Limited and CITIC Group Corporation is deemed to be interested in the shares held by CIAM.
- Mr. Liu and Ms. Niu are interested in State Energy. By virtue of the SFO, Mr. Liu and Ms. Niu are deemed to be interested in the shares held by State Energy.

DISCLOSURE OF ADDITIONAL INFORMATION (continued)

SHARE OPTION SCHEME

The Company operates a share option scheme adopted by the shareholders of the Company (the “**Shareholders**”) on 25 May 2018 (the “**Share Option Scheme**”) which shall be valid and effective for a period of ten years from the date of adoption. Accordingly, the Share Option Scheme will be expired on 25 May 2028.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any invested entity. Eligible participants include any employee (whether full time or part time), any executive Director and any non-executive Director (including independent non-executive Directors), or any of its subsidiaries or invested entity in which any member of the Group holds any equity interest, any shareholder of any member of the Group or any invested entity or any holder of any securities issued or proposed to be issued by any member of the Group or any invested entity and any other person (such as consultant, adviser, business partner or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

Under the Share Option Scheme, where any further grant of options to an eligible participant, if exercised in full, would result in the total number of shares already issued or to be issued upon exercise of all options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant exceeding 1% of the total number of shares in issue (the “**Individual Limit**”), such further grant must be separately approved by the Shareholders in general meeting. Save for the foregoing, no eligible participant shall be granted an option if exercised in full, would exceed the Individual Limit. In addition, where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000, such further grant of options must be approved by the Shareholders.

A consideration of HK\$1 is payable on acceptance of the grant of an option. An option may be exercised in whole or in part by the grantee within the option period as determined and notified by the Board to the grantee. The Share Option Scheme does not specify a minimum period for which an option must be held before an option can be exercised. However, the provisions of the Share Option Scheme provide that the Board may impose, at its sole discretion, conditions on the grant of an option.

The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Exchange’s daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Exchange’s daily quotations sheets for the 5 trading days immediately preceding the date of grant.



DISCLOSURE OF ADDITIONAL INFORMATION (continued)**SHARE OPTION SCHEME** (continued)

Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued shares of the Company from time to time.

The maximum number of Shares which may be allotted and issued upon the exercise of all share options shall not in aggregate exceed 10% of the Shares in issue as at the date of approval of the refreshed limit by the Shareholders (the “**Scheme Mandate Limit**”), and the existing Scheme Mandate Limit was approved by the Shareholders in the AGM on 15 June 2020.

On 19 June 2020, a total of 116,203,500 options have been granted at an exercise price of HK\$0.066 per Share under the Scheme Mandate Limit.

Details of the share options movements during the six months ended 30 June 2020 (the “**Period**”) under the Share Option Scheme are as follows:

| Name of category | Date of grant of share options | Outstanding as at 01.01.2020 | Granted during the Period | Number of share options | | | Outstanding as at 30.06.2020 | Validity period of share options | Exercise price |
|------------------------|--------------------------------|------------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|------------------------------|----------------------------------|----------------|
| | | | | Exercised during the Period | Lapsed during the Period | Cancelled during the Period | | | |
| Directors | | | | | | | | | |
| Mr. Chong Kok Leong | 19.06.2020 | - | 12,678,600 | - | - | - | 12,678,600 | 01.01.2021 to 31.12.2025 | HK\$0.066 |
| Mr. Zhuang Miao Zhong | 19.06.2020 | - | 5,071,400 | - | - | - | 5,071,400 | 01.01.2021 to 31.12.2025 | HK\$0.066 |
| Mr. Choy Hiu Fai, Eric | 19.06.2020 | - | 507,200 | - | - | - | 507,200 | 01.01.2021 to 31.12.2025 | HK\$0.066 |
| Mr. Huang Lizhi | 19.06.2020 | - | 507,200 | - | - | - | 507,200 | 01.01.2021 to 31.12.2025 | HK\$0.066 |
| Mr. Ng Kay Kwok | 19.06.2020 | - | 507,200 | - | - | - | 507,200 | 01.01.2021 to 31.12.2025 | HK\$0.066 |
| Subtotal | | - | 19,271,600 | - | - | - | 19,271,600 | | |
| Employees | 19.06.2020 | - | 96,931,900 | - | - | - | 96,931,900 | 01.01.2021 to 31.12.2025 | HK\$0.066 |
| Total | | - | 116,203,500 | - | - | - | 116,203,500 | | |

Upon the Share Consolidation becoming effective on 26 August 2020, the number of total share options granted under the Share Option Scheme and the exercise price per Share had been adjusted accordingly.

DISCLOSURE OF ADDITIONAL INFORMATION (continued)

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 report, 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. For details, please refer to the section headed "Chairman and Chief Executive Officer".

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.



DISCLOSURE OF ADDITIONAL INFORMATION (continued)

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has not appointed chairman and chief executive officer, and the roles and functions of those have been performed by the executive Directors collectively, including but not limited to: properly briefing on issues arising at board meeting by the chairman of the meeting; ensuring good corporate governance practices and procedures are established; encouraging other Directors to make a full and active contribution to the Board's affairs and ensuring that it acts in the best interests of the Group; encouraging every Director with different views to voice their concerns; allowing sufficient time for discussion of issues and ensuring that Board decision fairly reflect Board consensus; providing effective communication with shareholders and that their views are communicated to the Board as a whole; promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular; ensuring constructive relations between executive Directors and non-executive Directors; and managing the day-to-day business of the Company. The Board members believe that Directors they have their unique expertise and functions well within the Company.

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.

For and on behalf of the Board

Chong Kok Leong

Executive Director

Hong Kong, 27 August 2020