



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

(Stock Code:145)

Interim Report 

2018





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Li Ai Guo
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

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 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

23rd Floor
Bank of America Tower
12 Harcourt Road
Central
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 2018 together with the unaudited comparative figures for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	6,387	4,853
Cost of operation		(4,701)	(3,080)
Gross profit		1,686	1,773
Other income	5	2,201	1,147
Other gains and losses	6	–	220
Selling expenses		(1,444)	(1,399)
Administrative and operating expenses		(37,264)	(37,061)
Loss from operations		(34,821)	(35,320)
Finance costs	7	(61,910)	(43,631)
Loss before taxation	8	(96,731)	(78,951)
Taxation	9	12,700	9,997
Loss for the period		(84,031)	(68,954)
Other comprehensive income/(loss) for the period, net of tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Gain/(loss) on revaluation of available-for-sale financial assets		533	(508)
Exchange differences arising on translation of foreign operations		2,302	1,919
Other comprehensive income for the period, net of tax		2,835	1,411
Total comprehensive loss for the period, net of tax		(81,196)	(67,543)
Loss for the period attributable to owners of the Company		(84,031)	(68,954)
Total comprehensive loss for the period attributable to owners of the Company		(81,196)	(67,543)
Loss per share	11		
– Basic and diluted, HK cents		(3.64)	(3.05)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

		30 June	31 December
		2018	2017
		HK\$'000	HK\$'000
	<i>Notes</i>	(Unaudited)	(Audited)
Non-current assets			
Intangible assets	12	669,695	696,937
Property, plant and equipment	13	533	659
Construction in progress		42,603	22,515
Goodwill	14	432,403	432,403
Available-for-sale financial assets	15	12,660	12,127
Trade receivables	17	27,473	22,400
Finance lease receivables	16	35,704	33,612
		1,221,071	1,220,653
Current assets			
Inventories		639	632
Trade and bills receivables	17	28,793	36,430
Prepayments, deposits and other receivables	18	1,946	991
Finance lease receivables	16	10,981	12,777
Amounts due from customers under construction contracts		501	861
Cash and bank balances		33,091	57,111
		75,951	108,802
Current liabilities			
Trade and other payables	19	39,689	25,092
Amounts due to shareholders		–	40
Other borrowings		24,530	23,965
Promissory notes	20	118,593	110,395
		182,812	159,492
Net current liabilities		(106,861)	(50,690)
Total assets less current liabilities		1,114,210	1,169,963



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

		30 June 2018	31 December 2017
		HK\$'000	HK\$'000
	<i>Notes</i>	(Unaudited)	(Audited)
Non-current liabilities			
Convertible bonds	<i>21</i>	529,151	491,008
Deferred tax liabilities		164,436	177,136
		693,587	668,144
Net assets			
		420,623	501,819
Capital and reserves			
Share capital	<i>22</i>	1,344,398	1,344,398
Reserves		(923,775)	(842,579)
Total equity			
		420,623	501,819





CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Share capital HK\$'000	Share options reserve HK\$'000	Convertible bonds reserve HK\$'000	Available- for-sale financial assets reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017 (Audited)	1,210,498	607	677,360	958	(2,185)	(1,332,935)	554,303
Loss for the period	-	-	-	-	-	(68,954)	(68,954)
Other comprehensive income/(loss) for the period	-	-	-	(508)	1,919	-	1,411
Total comprehensive income/(loss) for the period	-	-	-	(508)	1,919	(68,954)	(67,543)
Redemption of convertible bonds	-	-	(4,729)	-	-	4,729	-
Issuance of shares upon placing (Note 22)	138,400	-	-	-	-	-	138,400
Transaction cost attributable to placing new shares	(4,500)	-	-	-	-	-	(4,500)
At 30 June 2017 (Unaudited)	1,344,398	607	672,631	450	(266)	(1,397,160)	620,660
At 1 January 2018 (Audited)	1,344,398	607	672,631	1,203	4,419	(1,521,439)	501,819
Loss for the period	-	-	-	-	-	(84,031)	(84,031)
Other comprehensive income for the period	-	-	-	533	2,302	-	2,835
Total comprehensive income/(loss) for the period	-	-	-	533	2,302	(84,031)	(81,196)
Transfer upon lapse of share options	-	(334)	-	-	-	334	-
At 30 June 2018 (Unaudited)	1,344,398	273	672,631	1,736	6,721	(1,605,136)	420,623



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018 (Unaudited) <i>HK\$'000</i>	2017 (Unaudited) <i>HK\$'000</i>
<i>Note</i>		
Net cash flow used in operating activities	(26,971)	(34,359)
Cash flows from investing activities		
Purchase of available-for-sale financial assets	–	(835)
Purchase of property, plant and equipment	(4)	(5)
Other interest received	104	11
Net cash flow generated from/(used in) investing activities	100	(829)
Cash flows from financing activities		
Repayment of convertible bonds	–	(33,000)
Proceeds from issue of shares upon placing, net of share issuing cost	–	133,900
Net cash flow generated from financing activities	–	100,900
Net increase/(decrease) in cash and cash equivalents	(26,871)	65,712
Cash and cash equivalents at the beginning of the period	57,111	34,360
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies	2,851	1,889
Cash and cash equivalents at the end of the period	33,091	101,961
Analysis of balances of cash and cash equivalents		
Cash and bank balances	33,091	101,961



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 “**Stock 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 2017 as contained in the Company’s annual report 2017, 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 23 August 2018.

The financial information relating to the financial year ended 31 December 2017 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 2017 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 2017. The auditors’ report was unqualified; but include a reference to a matter to which the auditor drew attention by way of emphasis under the heading “Material Uncertainty Related to Going Concern” without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION *(continued)*

During the period ended 30 June 2018, the Group incurred a net loss of approximately HK\$84,031,000 and net current liabilities of approximately HK\$106,861,000 as at 30 June 2018 and; the Group had promissory notes of approximately HK\$118,593,000 and other borrowings of approximately HK\$24,530,000 which is due within the next twelve months after 30 June 2018. 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 financial position of the Group.

The Directors have made an assessment and concluded that the Group is able to continue as a going concern for at least the next twelve months from the end of the reporting period and to meet its obligations, as and when they fall due, having regard to the following:

(i) Alternative source of funding

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

(ii) Negotiation of corporate financing plan

In the early year of 2018, the Group was negotiating the corporate financing plan with an independent potential investor for fund raising and both the Group and potential investor already engaged their financial advisor and related professional parties for due diligence task. However, after exchanging the views of the structure of the fund raising exercise, no further update has been received from the potential investor. Since then, the Company has been negotiating with other investors and institutions to provide further liquidity for the Group.

(iii) Negotiations with creditors

The Group has started negotiations with creditors on measures to improve the financial position of the Group.

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION *(continued)*

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

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

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK(IFRIC) 22	Foreign currency transactions and advance consideration

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

The Group's reportable and operating segments are as follows:

- (a) design and provision of energy saving solutions
- (b) loan financing
- (c) treasury investments



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. SEGMENT INFORMATION *(continued)*

The following is an analysis of the Group's revenue and results by reportable and operating segment for the period:

Segments revenue and results

	Loan financing		Treasury investments		Design and provision of energy saving solutions		Unallocated		Consolidated	
	For the six months ended 30 June									
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Turnover										
External sales	-	-	-	-	6,387	4,853	-	-	6,387	4,853
Results										
Segment results	-	-	-	-	(30,315)	(30,710)	-	-	(30,315)	(30,710)
Unallocated corporate expenses							(4,506)	(4,830)	(4,506)	(4,830)
Other gains and losses							-	220	-	220
Finance costs	-	-	-	-	(1,508)	-	(60,402)	(43,631)	(61,910)	(43,631)
Loss before taxation									(96,731)	(78,951)
Taxation									12,700	9,997
Loss for the period									(84,031)	(68,954)

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2018 and 2017.

Segment results represent the profit/(loss) by each segment without allocation of other gains and losses, centralised administration costs such as certain directors' emolument, staff salaries, operating lease payments, certain legal and professional fees, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

	Loan financing		Treasury investments		Design and provision of energy saving solutions		Consolidated	
	30 June 2018 <i>HK\$'000</i> (Unaudited)	31 December 2017 <i>HK\$'000</i> (Audited)	30 June 2018 <i>HK\$'000</i> (Unaudited)	31 December 2017 <i>HK\$'000</i> (Audited)	30 June 2018 <i>HK\$'000</i> (Unaudited)	31 December 2017 <i>HK\$'000</i> (Audited)	30 June 2018 <i>HK\$'000</i> (Unaudited)	31 December 2017 <i>HK\$'000</i> (Audited)
Assets								
Segment assets	-	-	-	-	1,281,933	1,314,647	1,281,933	1,314,647
Unallocated corporate assets							15,089	14,808
							1,297,022	1,329,455
Liabilities								
Segment liabilities	-	-	-	-	31,019	29,379	31,019	29,379
Unallocated corporate liabilities							845,380	798,257
							876,399	827,636

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than corporate financial assets. Goodwill and intangible assets are allocated to design and provision of energy saving solutions.
- all liabilities are allocated to reportable segments other than corporate financial liabilities, deferred tax liabilities, convertible bonds, promissory notes and financial liabilities derivatives.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Design and provision of energy saving solutions:		
Sale of goods	6,101	4,821
Repair and maintenance service fee income	286	32
	6,387	4,853

5. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	104	11
Interest income on finance lease receivables	2,091	1,102
Others	6	34
	2,201	1,147



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Fair value changes on financial liabilities derivatives	–	419
Loss on redemption of convertible bonds	–	(199)
	–	220

7. FINANCE COSTS

	Six months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Interest expense on other borrowings	1,508	–
Imputed interest on promissory notes	8,198	7,104
Imputed interest on convertible bonds	52,204	36,527
	61,910	43,631

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

8. LOSS BEFORE TAXATION

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Staff costs (including Directors' remuneration):		
– Directors' fee	830	1,646
– Salaries, bonus and wages	4,255	3,495
– Contribution to retirement benefits schemes	405	319
	5,490	5,460
Amortisation of intangible assets	27,242	27,242
Depreciation of property, plant and equipment	144	237
Cost of inventories sold	4,701	3,080
Operating lease payments	999	441
Loss on disposal of property, plant and equipment	–	94
Exchange loss	–	26

9. TAXATION

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Deferred taxation		
Credit for the period	(12,700)	(9,997)

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 2018 (six months ended 30 June 2017: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

10. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

11. LOSS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	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	(84,031)	(68,954)

	Six months ended 30 June	
	2018	2017
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,306,502	2,264,026

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 2018 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

FOR THE SIX MONTHS ENDED 30 JUNE 2018

12. INTANGIBLE ASSETS

	Patent <i>HK\$'000</i>
<hr/>	
Cost	
At 31 December 2017 and 1 January 2018 (Audited)	889,901
Additions	–
	<hr/>
At 30 June 2018 (Unaudited)	889,901
	<hr/>
Accumulated amortisation and impairment	
At 31 December 2017 and 1 January 2018 (Audited)	192,964
Amortisation expenses	27,242
	<hr/>
At 30 June 2018 (Unaudited)	220,206
	<hr/>
Carrying amounts	
At 30 June 2018 (Unaudited)	669,695
	<hr/>
At 31 December 2017 (Audited)	696,937
	<hr/>

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) The patents for UPPC system's useful life used in the calculation of amortisation is 16.3 years.
- (c) The Group carried out a review of the recoverable amount of the patents which are allocated to energy saving solution business for impairment assessments. The valuation method and other key assumptions used in the value in use of the calculation of recoverable amount are disclosed in note 14 to the condensed consolidated financial statements.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

13. 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 2018 was approximately HK\$4,000 (six months ended 30 June 2017: approximately HK\$5,000).

14. GOODWILL

	<i>HK\$'000</i>
Cost	
As at 31 December 2017 and 1 January 2018 (Audited)	1,275,620
Additions	–
At 30 June 2018 (Unaudited)	1,275,620
Accumulated impairment	
As at 31 December 2017 and 1 January 2018 (Audited)	843,217
Impairment for the period	–
At 30 June 2018 (Unaudited)	843,217
Carrying amounts	
As at 30 June 2018 (Unaudited)	432,403
As at 31 December 2017 (Audited)	432,403

Goodwill arising on an acquisition of Weldtech Group is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Particular of impairment testing on goodwill is disclosed below:

Goodwill has been allocated for impairment testing purposes to the following cash-generating units (“CGU”):

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. GOODWILL *(continued)*

Impairment testing on goodwill

The recoverable amount of the above CGU was determined on the basis of value in use calculations under income approach. The recoverable amount is based on certain assumptions. All value in use calculations use cash flow projections based on the financial budgets approved by the management covering a 10-year period. The pre-tax discount rate used is 18.09% per annum. Cash flows beyond 10-year period are extrapolated using a steady 3% growth rate per annum.

Impairment loss of approximately HK\$66,176,000 was recognised during the year ended 31 December 2017.

As the goodwill has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment loss.

The key assumption 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.





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Unlisted equity securities in Hong Kong, net, at cost (<i>Note (i)</i>)	835	835
Listed equity securities in Taiwan, at fair value (<i>Note (ii)</i>)	11,825	11,292
Total	12,660	12,127

Note:

- (i) The unlisted investments represent investments in unlisted equity securities in 9% as at 30 June 2018 of the total outstanding issued shares of a company incorporated in Hong Kong. They are measured at cost less identified impairment losses at the end of the reporting period because their fair values cannot be measured reliably. Such investment was disposed after the end of the reporting period. For further detail, please refer to note 26 to the condensed consolidated financial statements.
- (ii) The amount represents Group's investments in listed equity securities in Taiwan. The Group held 6,100,000 shares of Fortune Oriental Company Limited ("**Fortune Oriental**").

Fair value of investments in listed equity securities are determined by reference to bid prices quoted in active markets. During the period ended 30 June 2018, there was a gain on fair value change on available-for-sale financial assets with approximately HK\$533,000 (2017: loss of HK\$508,000) recognised in the available-for-sales financial assets investment reserve.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. FINANCE LEASE RECEIVABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Current finance lease receivables	10,981	12,777
Non-current finance lease receivables	35,704	33,612
	46,685	46,389

Leasing arrangements

Certain of the Group's energy saving equipment are leased out under finance leases. All leases are denominated in RMB. The average term of finance lease entered into is 5-10 years (31 December 2017: range from 5-10 years).

Amounts receivable under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Not later than 1 year	11,909	13,857	10,981	12,777
Later than one year and not later than five years	23,043	34,147	18,375	26,445
Later than five years	27,776	18,193	17,329	7,167
	62,728	66,197	46,685	46,389
Less: unearned finance income	(16,043)	(19,808)	–	–
Present value of minimum lease payments receivable	46,685	46,389	46,685	46,389
Allowance for uncollectible lease payments	–	–	–	–
	46,685	46,389	46,685	46,389



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. 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 average effective interest rate is approximately 8.45% per annum for the period ended 30 June 2018 (31 December 2017: 8.45%).

No impairment loss of finance lease receivables have been recognised for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

17. TRADE AND BILLS RECEIVABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade receivables		
– with normal credit terms	22,679	25,243
– with extended credit terms	33,587	33,587
	56,266	58,830
Less: Non-current portion of trade receivables with extended credit terms	(27,473)	(22,400)
Current portion of trade receivables	28,793	36,430
Bills receivables	–	–
	28,793	36,430

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

17. 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 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
0 – 90 days	-	33,587	2,903	22,925	2,903	56,512
91 – 180 days	-	-	-	2,082	-	2,082
Over 180 days	33,587	-	19,776	236	53,363	236
	33,587	33,587	22,679	25,243	56,266	58,830

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

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Prepayments	535	545
Receivables from disposal of a subsidiary	9,200	9,200
Other receivables	1,272	200
Rental deposit and other deposit	139	246
	11,146	10,191
Less: accumulated impairment allowance	(9,200)	(9,200)
	1,946	991

As at 30 June 2018 and 31 December 2017, 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 previous years.

19. TRADE AND OTHER PAYABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade payables	3,192	1,278
Accrued service fee for acquisition of a subsidiary	3,871	3,871
Accrued expenses	1,662	2,410
Receipt in advance	4	1,945
Interest payables	28,238	14,177
Other payables	2,722	1,411
	39,689	25,092

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. TRADE AND OTHER PAYABLES *(continued)*

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
0 to 90 days	802	713
91 to 180 days	1,634	–
181 to 365 days	300	78
Over 365 days	456	487
	3,192	1,278

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

20. PROMISSORY NOTES

The movement of the carrying amount of the PN A during the period ended 30 June 2018 and 31 December 2017 is set out below:

	<i>HK\$'000</i>
At 1 January 2017 (Audited)	95,660
Interest charged calculated at an effective interest rate of PN A 15.4%	14,735
At 31 December 2017 and 1 January 2018 (Audited)	110,395
Interest charged calculated at an effective interest rate of PN A 15.4%	8,198
At 30 June 2018 (Unaudited)	118,593



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

21. CONVERTIBLE BONDS (“CB”)

On 13 June 2014, the Company issued CB A and CB B, with principal amounts of HK\$434,980,000 and HK\$827,520,000 respectively as a part of the consideration for its acquisition of Weldtech Technology Co. Ltd. Both CB A and CB B are non-interest bearing for the first three years, followed by 3% interest per annum from the fourth to the remaining years. CB A can be converted as from the date of issue while CB B can only be converted as from 1 July 2015. The maturity date of both CB A and CB B is on 31 December 2023. The effective interest rate of the liability component on initial recognition is 15.99% per annum.

No conversion of shares has been exercised for the principal amount of CB A and CB B during the six months period ended 30 June 2018.

22. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2018 '000	31 December 2017 '000	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Issued and fully paid:				
At the beginning of the period/year	2,306,502	1,922,086	1,344,398	1,210,498
Issuance of shares upon placing (<i>Note (i)</i>)	–	384,416	–	133,900
At the end of the period/year	2,306,502	2,306,502	1,344,398	1,344,398

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

22. SHARE CAPITAL *(continued)*

Note:

(i) Placing

On 29 December 2016, the Company entered into a placing agreement (“**Placing Agreement**”) with RHB Securities Hong Kong Limited (“**RHB**”) as the placing agent pursuant to which the Company agreed to place through RHB, on a best-effort basis, an aggregate of up to 384,416,000 new shares at the placing price of HK\$0.36 per placing share.

On 11 January 2017, the Company entered into a supplemental agreement (“**Supplemental Agreement**”) with RHB pursuant to which the Company and RHB agreed to amend the Placing Agreement to remove the requirement that each placee shall not become a substantial shareholder of the Company as a result of the placing.

Completion of the placing took place on 20 January 2017 and a total of 384,416,000 new Shares have been successfully placed to a placee who and whose ultimate beneficial owners were third parties independent of and not connected with the Company and its connected persons (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”)) immediately prior to the completion of the placing.

The gross proceeds from the placing were approximately HK\$138,400,000 and the net proceeds after deducting all relevant expenses were approximately HK\$133,900,000, which the Company intends to utilize for (i) general working capital of the Group; (ii) repayment of existing indebtedness; and/or (iii) possible investments in the future.

For further details, please refer to the announcements of the Company dated 29 December 2016, 11 January 2017 and 20 January 2017.





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

23. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases for certain of its office premises as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within one year	248	1,037

Leases are negotiated and rental are fixed for term of 1 year (2017: 1 year).

24. 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 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Commitments for the construction contract	9,207	23,471

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

- (i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively; and
- (ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(continued)*

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- (i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identified assets and liabilities.
- (ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Assets and liabilities measured at fair value

Fair value hierarchy as at 30 June 2018

	30 June 2018			Total HK\$'000 (Unaudited)
	Level 1 HK\$'000 (Unaudited)	Level 2 HK\$'000 (Unaudited)	Level 3 HK\$'000 (Unaudited)	
Financial assets				
Available-for-sale financial assets				
Equity securities listed in Taiwan	11,825	-	-	11,825
Financial liabilities				
Financial liabilities derivatives	-	-	-	-



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(continued)*

Assets and liabilities measured at fair value *(continued)*

Fair value hierarchy as at 31 December 2017

	31 December 2017			Total HK\$'000 (Audited)
	Level 1 HK\$'000 (Audited)	Level 2 HK\$'000 (Audited)	Level 3 HK\$'000 (Audited)	
Financial assets				
Available-for-sale financial assets				
Equity securities listed in Taiwan	11,292	–	–	11,292
Financial liabilities				
Financial liabilities derivatives	–	–	–	–

The fair value of financial instruments is based on quoted market prices provided by the issuer.

There were no transfers between Levels 1 and 2 during the six months ended 30 June 2018.

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values as at 30 June 2018 and 31 December 2017.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

26. EVENTS AFTER REPORTING PERIOD

Other than disclosed elsewhere in the condensed consolidated financial statements, the Group also has the following significant events after the end of the reporting period:

- (i) On 25 July 2018, Pride Motto Limited (“**Pride Motto**”), wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the purchaser, independent third parties of the Group, pursuant to which Pride Motto agreed to sell and the purchaser agreed to acquire 450,000 shares of CIAM Capital Management Limited (“**CIAMC**”) which represent approximately 9% of the entire issued equity interest in CIAMC at the consideration of approximately HK\$835,000. The completion of such disposal took place on 8 August 2018.



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 2018, the Group recorded an unaudited revenue of approximately HK\$6,387,000, representing an increase of approximately 31.6% as compared with approximately HK\$4,853,000 for the last corresponding period. An unaudited loss attributable to the owners of the Company of approximately HK\$84,031,000 (2017: loss of approximately HK\$68,954,000) was recorded which was mainly attributable to: (i) amortisation of intangible assets of HK\$27,242,000 (2017: HK\$27,242,000); and (ii) finance costs of approximately HK\$60,402,000 (2017: approximately HK\$43,631,000) due to interest amortisation of convertible bonds and promissory note; and approximately HK\$1,508,000 (2017: Nil) on other borrowings raised for financing the projects of the Group’s operations.

Energy saving solutions business

The Company completed the acquisition of Weldtech Technology Co. Limited and its subsidiary, Haoxin Technology (Shanghai) Company Limited (濠信節能科技(上海)有限公司) (collectively, the “**Weldtech Group**”) (the “**Acquisition**”) on 13 June 2014, which is primarily engaged in design and provision of energy saving solutions business.

With respect to the segment of design and provision of energy saving solutions, a segment loss of approximately HK\$30,315,000 was recorded for the six months ended 30 June 2018 (2017: loss of approximately HK\$30,710,000). The segment loss was mainly attributable to the amortisation of intangible assets of approximately HK\$27,242,000 (2017: approximately HK\$27,242,000). The amortisation of intangible assets is calculated over the useful life of 7 patents for “Ultra Performance Plant Control System” (“**UPPC System**”) held under Weldtech Group. Before deducting the amortisation of intangible assets, Weldtech Group has generated a segment loss of approximately HK\$3,073,000 (2017: segment loss of approximately HK\$3,468,000) to the Group.

Loan financing and treasury investments businesses

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



LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group's cash and bank balances amounted to approximately HK\$33,091,000 (31 December 2017: approximately HK\$57,111,000), and it had outstanding convertible bonds of approximately HK\$529,151,000 (31 December 2017: approximately HK\$491,008,000) and promissory notes of approximately HK\$118,593,000 (31 December 2017: approximately HK\$110,395,000). The net assets of the Group amounted to approximately HK\$420,623,000 (31 December 2017: approximately HK\$501,819,000).

As at 30 June 2018, the Group's current liabilities exceeded its current assets by approximately HK\$106,861,000; and the Group had promissory notes of approximately HK\$118,593,000 and other borrowings of approximately HK\$24,530,000 which is due within the next twelve months after 30 June 2018. As explained in note 1 to this report, the interim financial report has been prepared on a going concern basis. The interim financial report does not include any adjustments that would result should the Group be unable to operate as a going concern.

The gearing ratio of the Group as at 30 June 2018, which is calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total capital, was 0.60 (31 December 2017: 0.53).

As at 30 June 2018, the Group's other borrowings of approximately HK\$24,530,000 (31 December 2017: HK\$23,965,000) were secured by corporate guarantees granted by the Company.

CAPITAL STRUCTURE

As at 30 June 2018, the Company's number of issued ordinary shares was 2,306,502,816 ("**Share(s)**") (as at 31 December 2017: 2,306,502,816 Shares).

As at 30 June 2018, the Company had principal amount of HK\$305,545,700 convertible bond A (the "**CB A**") outstanding which could be converted into 381,932,124 Shares at the conversion price of HK\$0.80 per share. During the six months ended 30 June 2018, no new Shares were issued from the conversion of CB A.

As at 30 June 2018, the Company had principal amount of HK\$639,612,430 convertible bond B (the "**CB B**") outstanding which could be converted into 799,515,538 Shares at the conversion price of HK\$0.80 per share. During the six months ended 30 June 2018, no new Shares were issued from the conversion of CB B.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any charges on its assets (31 December 2017: Nil) and did not have any material contingent liabilities (31 December 2017: Nil).



CAPITAL COMMITMENT

As at 30 June 2018, the Group had capital commitments, which were contracted but not provided for, in respect of construction contract of approximately HK\$9,207,000 (31 December 2017: approximately HK\$23,471,000).

FOREIGN CURRENCY EXPOSURE

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

MATERIAL INVESTMENTS, ACQUISITION AND DISPOSALS

Save as disclosed elsewhere in this report, there were no material investments, acquisitions or disposals of subsidiaries during the six months ended 30 June 2018.

STAFF AND REMUNERATION

As at 30 June 2018, the Group had 36 (2017: 43) employees and total staff costs incurred during the period under review amounted to approximately HK\$5,490,000 (2017: approximately HK\$5,460,000). The Group offers competitive remuneration packages to its employees.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: 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 Group is facing intensified competition in the energy saving industry during the period ended 30 June 2018, particularly for small and medium-sized projects.

Due to the increasing awareness of the energy saving, social responsibility and also the determination to reduce carbon emission, the energy saving and environmental protection remain the key focus of the PRC government. Several scheduled projects are ongoing, either in implementation or construction stage. These projects are expected to complete and recognise as revenue in later 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.

Due to the local economic factors and customer factors, there are uncertainties in terms of project completion timing. Going forward, the Weldtech Group will try to target potential customers for buyout projects to improve cashflow of the Weldtech Group with shorter turnover days, while 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.

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





DISCLOSURE OF ADDITIONAL INFORMATION

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

As at 30 June 2018, 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	Number of Underlying Shares	Approximate percentage of number of Shares in issue (Note 1)
CITIC Group Corporation (Note 2)	Interest of controlled corporation	102,552,205 (L)	911,251,162 (L)	43.95%
CITIC Limited (Note 2)	Interest of controlled corporation	102,552,205 (L)	911,251,162 (L)	43.95%
China CITIC Bank Corporation Limited (Note 2)	Interest of controlled corporation	102,552,205 (L)	911,251,162 (L)	43.95%
CITIC International Financial Holdings Limited (Note 2)	Interest of controlled corporation	102,552,205 (L)	911,251,162 (L)	43.95%
CITIC International Assets Management Limited ("CIAM") (Note 2)	Beneficial owner	102,552,205 (L)	911,251,162 (L)	43.95%
Liu Quanhui ("Mr. Liu") (Note 3)	Interest of controlled corporation	454,268,172 (L)	113,665,537 (L)	24.62%
Niu Fang ("Ms. Niu") (Note 3)	Interest of controlled corporation	454,268,172 (L)	113,665,537 (L)	24.62%
State Energy HK Limited ("State Energy") (Note 3)	Beneficial owner	454,268,172 (L)	113,665,537 (L)	24.62%
Hong Kong Mengzai Material Co., Limited	Beneficial owner	384,416,000 (L)	–	16.66%

(L) denotes the long position held in the Shares

Notes:

- As at 30 June 2018, the Company's number of issued Share was 2,306,502,816.
- These shares comprise (i) 102,552,205 shares held by CIAM and (ii) 911,251,162 conversion shares to be allotted and issued to CIAM upon the exercise of the conversion rights attaching to the Convertible Bonds issued to CIAM pursuant to the sale and purchase agreement on 31 October 2013. CIAM is owned as to 40% by CITIC International Financial Holdings Limited, a wholly-owned subsidiary of China CITIC Bank Corporation Limited, which is over 60% owned by CITIC Limited, which is 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes: *(continued)*

- (3) These shares comprise (i) 454,268,172 shares held by State Energy and (ii) 113,665,537 conversion shares to be allotted and issued to State Energy. 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.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 22 May 2008 which was expired on 22 May 2018 (the “**Expired Share Option Scheme**”), to allow the Company to grant share options to the participants for the purpose of providing incentives or rewards to the participants for their contribution to the Group. Details of the share options outstanding during the six months ended 30 June 2018 were:

Details of the share options movements during the six months ended 30 June 2018 (the “**Period**”) under the Share Option Scheme are as follows:

Name of category	Date of grant of share options	Outstanding as at 01.01.2017	Granted during the Period	Number of share options			Outstanding as at 30.06.2017	Validity period of share options	Exercise price
				Exercised during the Period	Lapsed during the Period	Cancelled during the Period			
Employee	22.01.2015	4,000,000	-	-	4,000,000	-	-	22.01.2016 to 21.01.2018	HK\$0.900
	22.01.2015	4,000,000	-	-	-	-	4,000,000	22.01.2017 to 21.01.2019	HK\$1.500
Total		8,000,000	-	-	4,000,000	-	4,000,000		

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, pursuant to which the Board may, at its discretion, grant options to any eligible participants.

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.

SHARE OPTION SCHEME *(continued)*

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 Stock 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 Stock Exchange’s daily quotations sheets for the 5 trading days immediately preceding the date of grant.

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 share capital 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 which 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**”), in which the existing Scheme Mandate Limit was approved by the Shareholders in the annual general meeting of the Company on 26 June 2015 and the outstanding number of options available for issue under the existing Scheme Mandate Limit as at 30 June 2018 is 230,650,281, representing 10% of the issued shares as at the date of this report.

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 2018.

CORPORATE GOVERNANCE

During the six months ended 30 June 2018 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 division of responsibilities between the Chairman and CE should be clearly established and set out in writing. During the period under review, the Company did not appoint a Chairman or CE. The functions of the Chairman and CE are performed by the Directors. The Board will review the current practice from time to time and make appropriate changes if necessary.

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 25 May 2018 due to other important business engagement.

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

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



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 2018 on Directors are as follows:

Mr. Choy Hiu Fai, Eric, the independent non-executive Director, was appointed as independent non-executive director of Wing Fung Group Asia Limited (stock code: 8526), a company listed on GEM of the Stock Exchange, on 31 January 2018.

Mr. So Yuen Chun resigned as an executive Director with effect from 1 January 2018.

Mr. Yeung Wai Hung resigned as an independent non-executive Director with effect from 2 June 2018.

Mr. Ng Kay Kwok was appointed as an independent non-executive Director with effect from 15 August 2018.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2018. The Audit Committee has approved the unaudited interim financial statements.

On behalf of the Board

The Hong Kong Building and Loan Agency Limited

Chong Kok Leong

Executive Director

Hong Kong, 23 August 2018

