比速科技集團國際有限公司

Bisu Technology Group International Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1372)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the "**Board**") of directors (the "**Directors**") of Bisu Technology Group International Limited (the "**Company**") announces the unaudited condensed consolidated interim results and financial position of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020 with comparative figures for the corresponding period in the previous year as follows. This condensed consolidated interim financial information has not been audited, but has been reviewed by the audit committee of the Company (the "**Audit Committee**"):

FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Revenue	**215,823**	246,196
Gross profit/(loss)	**5,998**	(24,680)
Gross profit/(loss) margin	**2.8%**	(10%)
Profit/(loss) attributable to owners of the parent	**499,053**	(264,268)
Earning/(loss) per share		
– basic (HK cents)	**249.5**	(131.7)
– diluted (HK cents)	**129.9**	(131.7)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Six months ended 30 June 2020

		Unaudited	
		Six months ended 30 June	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
REVENUE	*5*	**215,823**	246,196
Cost of sales	*6*	**(209,825)**	(270,876)
Gross profit/(loss)		**5,998**	(24,680)
Other income and gains	*5*	**6,888**	454
Gain on extinguishment of convertible bonds		**293,712**	—
Gain on modification of promissory notes		**294,577**	—
Gain on disposal of subsidiaries		—	1,682
Administrative and selling expenses		**(24,699)**	(162,486)
Finance costs		**(32,138)**	(37,944)
Impairment of property, plant and equipment		**(28,904)**	—
Impairment of goodwill	*12*	**(16,338)**	—
Impairment of intangible assets		—	(50,701)
Profit/(loss) before tax	*6*	**499,096**	(273,675)
Income tax (expense)/credit	*7*	**(43)**	9,407
Profit/(loss) for the period		**499,053**	(264,268)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*
Six months ended 30 June 2020

	Notes	Unaudited Six months ended 30 June **2020** *HK$'000*	2019 *HK$'000*
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,220**	1,770
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**1,220**	1,770
TOTAL COMPREHENSIVE INCOME/(LOSS)		**500,273**	(262,498)
Profit/(loss) for the period attributable to:			
Owners of the parent		**499,053**	(263,446)
Non-controlling interest		**—**	(822)
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**500,273**	(261,676)
Non-controlling interest		**—**	(822)
Earnings/(loss) per share attributable to owners of the parent			
Basic (HK cents)	*9*	**249.5**	(131.7)
Diluted (HK cents)	*9*	**129.9**	(131.7)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	Notes	**Unaudited 30 June 2020 *HK$'000***	Audited 31 December 2019 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**632**	32,120
Right-of-use assets		**3,487**	3,252
Goodwill	*10*	**—**	16,557
Total non-current assets		**4,119**	51,929
CURRENT ASSETS			
Inventories		**7,049**	9,895
Contract assets	*11*	**72,968**	60,623
Accounts receivables	*12*	**207,579**	207,206
Prepayments, deposits and other receivables		**18,953**	44,665
Cash and cash equivalents		**55,876**	64,777
Total current assets		**364,425**	387,166
CURRENT LIABILITIES			
Accounts payable	*13*	**300,045**	313,300
Tax payable		**89**	92
Other payables and accruals		**54,834**	55,686
Interest-bearing bank and other borrowings		**46,270**	57,980
Lease liabilities		**2,251**	552
Convertible bonds	*14*	**—**	386,333
Promissory notes	*15*	**—**	553,985
Total current liabilities		**403,489**	1,367,928
NET CURRENT LIABILITIES		**(41,064)**	(980,762)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(36,945)**	928,833

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
30 June 2020

	Notes	**Unaudited 30 June 2020 *HK$'000***	Audited 31 December 2019 *HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**41,499**	29,752
Convertible bonds	*14*	**98,027**	–
Promissory notes	*15*	**274,649**	–
Deferred tax liabilities		**13,394**	13,350
Lease liabilities		**1,507**	2,820
Total non-current liabilities		**429,076**	45,922
Net liabilities		**(466,021)**	(974,755)
EQUITY			
Equity attributable to owners of the parent			
Share capital		**2,000**	2,000
Equity component of convertible bonds	*14*	**384,037**	375,576
Reserves		**(852,058)**	(1,352,331)
Deficiency in assets		**(466,021)**	(974,755)

NOTES

1. CORPORATE INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands. The registered office address of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 1001, 10/F, Wing On Centre, 111 Connaught Road Central, Hong Kong.

During the six months ended 30 June 2020, the Group was principally engaged in the following principal activities:

– Civil engineering works and building construction and maintenance works (the "**Civil Engineering and Construction Business**")

– Development, production and sale of automotive engines (the "**Automotive Engines Business**")

In the opinion of the directors, the immediate holding company and the ultimate holding company is Youth Force Asia Ltd., a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 *"Interim Financial Reporting"* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Going concern

Despite the Group reports a net profit of HK$499,053,000 for the six months ended 30 June 2020 (the "**Period**"); the Group has net current liabilities of HK$41,064,000 and net liabilities of HK$466,021,000 as at 30 June 2020, in the opinion of the directors, the Group will have sufficient working capital to finance its operation and to meet its financial obligations as and when they fall due in the foreseeable future, based on the cash flow projections of the Group and after taking into consideration the following:

(i) following an amendment on the terms of the convertible bonds and the promissory notes which took effect on 14 January 2020, the repayment date of the convertible notes was extended to 4 February 2025 and the promissory notes was changed to perpetual. Such amendments have leaded to an improvement on the general liquidity of the Group, and levitated the Group's pressure to repay its debts;

(ii) a major shareholder of the Company has agreed to provide additional funding by a shareholder's loan of not less than HK$58,600,000 from 1 January 2019 to 31 March 2021 to the Group as and when required, and not to demand for repayment of the amount due by the Group until it is in the position to repay without impairing its liquidity and financial position. As at 30 June 2020, such shareholder loan amounted to approximately HK$11.7 million was drawn down by the Group;

(iii) Power Expert and its shareholder, Mr. Liu Chang, has agreed to provide undertaking and continuous financial support by loans with market interest rate to the Group as and when required prior to 31 March 2021. Despite the fact that Power Expert ceased to be holder of convertible bonds and promissory notes on 3 February 2020, Power Expert still confirmed to provide such financial support to the Group;

(iv) despite the futile result of the restructuring of certain Automotive Engines Business Customers and therefore a dimmer hope of turnaround of the Automotive Engines Business in the near future, there was no immediate cash outflow or capital commitment for this business segment; and

(v) various cost control measures have been taken by the Group to tighten the costs of operations and various general and administrative expense.

The Directors believe that, taking into account the above factors and based on the existing information available to the Group, the Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from 30 June 2020. However, should the above financing or support be unavailable, the Group may be unable to continue as a going concern, in which case adjustments might have to be made to the carrying amounts of the Group's assets to state them at their recoverable amounts, and to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

The accounting policies and the basis of preparation adopted in the preparation of this condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019, except for the adoption of new and revised standard with effect form 1 January 2020 as detailed below.

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for these Financial Statements.

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

The adoption of the new and revised standards are not expected to have any significant impact on the Group's interim condensed consolidated financial information.

3. ESTIMATES

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group as at and for the year ended 31 December 2019.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and service and has two reportable operating segments as follows:

– Civil engineering and construction segment – civil engineering works and building construction and maintenance works

– Automotive engines segment – development, production and sales of automotive engines

Management monitors the results of the Group's operating segments separately for the purpose of making decision about resources allocations and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that finance costs, gain on disposal of subsidiaries, gain on extinguishment of convertible bonds as well as head office and corporate expenses are excluded from such measurement.

Segment revenue and results

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

For the six months ended 30 June (Unaudited)

	Civil engineering and construction		Automotive engines		Total	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**213,397**	176,244	**2,426**	69,952	**215,823**	246,196
Segment results	**401**	(7,480)	**(52,955)**	(194,436)	**(52,554)**	(201,916)
Gain on extinguishment of convertible bonds					**293,712**	–
Gain on modification of promissory notes					**294,577**	–
Gain on disposal of subsidiaries					**–**	1,682
Corporate and unallocated income					**54**	–
Corporate and unallocated expenses					**(4,555)**	(35,497)
Finance costs					**(32,138)**	(37,944)
Profit/(loss) before tax					**499,096**	(273,675)

5. REVENUE, OTHER INCOME AND GAINS

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Revenue		
Contract revenue	**213,397**	176,244
Sales of goods	**2,426**	69,952
	215,823	246,196
Other income and gains		
Interest income	**1**	2
Consultancy fee income	**640**	240
Government subsidies*	**5,876**	109
Sundry income	**371**	103
	6,888	454

* Being the subsidies received from the COVID-19 Anti-epidemic Fund under the Employment Support Scheme and other subsidy schemes as promulgated by the Government of the Hong Kong Special Administrative Region of the People's Republic of China during the period.

6. PROFIT/(LOSS) BEFORE TAX

	Unaudited Six months ended 30 June 2020 HK$'000	Unaudited Six months ended 30 June 2019 HK$'000
The Group's profit/(loss) before tax is arrived at after charging:		
Cost of sales		
Cost of services provided	**207,327**	174,660
Cost of inventories sold	**2,498**	70,978
Provision for inventories	—	24,782
Amortisation of intangible assets	—	456
	209,825	270,876
Impairment of property, plant and equipment	**28,904**	–
Impairment of goodwill	**16,338**	–
Impairment of accounts and bills receivables, net	**3,223**	112,942
Impairment of contract assets	**397**	601
Depreciation or property, plant and equipment	**2,273**	3,221
Depreciation of right-of-use assets	**2,039**	1,594
Directors' remuneration	**2,487**	2,454
– Share-based payment expense	—	1,352
Employee benefits expenses (exclusive of directors' remuneration)	**12,384**	14,340
– Share-based payment expenses	—	4,284

7. INCOME TAX EXPENSE/(CREDIT)

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI. No provision for Hong Kong profits tax has been made for the six months ended 30 June 2020 and 2019 as there was no assessable profits generated on the estimated assessable profits arising in Hong Kong for the period.

Chongqing Bisu Yunbo Motor Technology Limited, a wholly- owned subsidiary of the Group in the PRC, is subject to a preferential corporate income tax ("**CIT**") rate of 15% (2019: 15%).

	Unaudited Six months ended 30 June 2020 HK$'000	Unaudited Six months ended 30 June 2019 HK$'000
Current charge/(credit) for the period		
– Hong Kong profit tax	**43**	–
– PRC CIT	**–**	(1,734)
– Deferred	**–**	(7,673)
Total tax charge/(credit) for the period	**43**	(9,407)

8. DIVIDEND

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

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts for the six months ended 30 June 2020 and 2019 are based on the consolidated profit/(loss) for the period attributable to owners of the parent of HK$499,053,000 (2019: loss of HK$263,446,000) and the weighted average number of 200,000,000 (2019: 200,000,000) ordinary shares in issue during the period.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to the owners of the parent, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. The calculations of basic and diluted earnings/(loss) per share are based on:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to owners of he parent, used in basic earnings/(loss) per share calculation	**499,053**	(263,446)
Interest on convertible bonds	**13,868**	14,026
Profit/(loss) attributable to owners of the parent before interest on convertible bonds	**512,921**	(249,420)

The calculations of basic and diluted (loss)/earnings per share are based on:

	Number of shares	
	Six months ended 30 June	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**200,000,000**	200,000,000
Effect of dilution – weighted average number of ordinary shares: Convertible bonds	**195,000,000**	–
Weighted average number of ordinary shares in issue during the year used in diluted earnings per share calculation	**395,000,000**	200,000,000

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2019 in respect of a dilution as the impact of the convertible bonds outstanding during the period had an anti-dilutive effect on the basic loss per share amount presented.

10. GOODWILL

	HK$'000
Six months ended 30 June 2020	
Net carrying amount:	
At 1 January 2020 (Audited)	**16,557**
Impairment during the period	**(16,338)**
Exchange realignment	**(219)**
At 30 June 2020 (Unaudited)	**—**
At 30 June 2020:	
Cost	**16,338**
Accumulated impairment	**(16,338)**
Net carrying amount	**—**

	HK$'000
Six months ended 30 June 2019	
Net carrying amount:	
At 1 January 2019 (Audited)	297,552
Acquisition of subsidiaries	419
Disposal of subsidiaries	(419)
Exchange realignment	(581)
At 30 June 2019 (Unaudited)	296,971

Goodwill acquired through a business combination is allocated to the cash-generating unit of the Automotive Engines Business (the "**Automotive Engines CGU**") for impairment testing, together with the property, plant and equipment of the Automotive Engines CGU.

Impairment test of the Automotive Engines CGU

The full resumption of production of the Automotive Engines Business Customers encountered further delay during 2019 due to the shortage in supply due to the suppliers' concern on the payment ability of the Automotive Engines Business Customers. The Automotive Engines Business Customers need to undergo further financial and operational restructuring to address the suppliers' concern but such restructuring is still in progress as of the reporting date. Based on discussion with the Automotive Engines Business Customers, only the restructuring of one of the Automotive Engines Business Customers, namely BAIC Yinxiang Automobile Co., Ltd.* (北汽銀翔汽車有限公司, "**BAIC Yinxiang**") is making progress but the result of the restructuring is still uncertain. Moreover, it is expected the COVID-19 outbreak will further delay the restructuring negotiation and progress.

For the six months ended 30 June 2020, the resumption progress of the key automotive engines business customers remained un-promising. The restructuring of BAIC Yinxiang is still in progress and the result remained uncertain. The resumption target, plan or schedule of BAIC Yinxiang remained unknown to the Group. Due to the unsatisfactory progress of the customers' resumption, together with the heavy impact of the COVID-19 outbreak, the automotive engines business of the Group recorded a minimal operation for the six months ended 30 June 2020. Moreover, based on discussion with BAIC Yinxiang, a new engine production line may be injected into BAIC Yinxiang after the restructuring which may reduce their orders to the automotive engines business of the Group in the future. Impairment losses of approximately HK$28.9 million and HK$16.3 million have been made on the property, plant and equipment and goodwill respectively for the six months ended 30 June 2020.

In view of the above situations, the Board performed an impairment assessment as at 30 June 2020 and recognised impairment losses of HK$16,338,000 (2019: HK$275,821,000) and HK$28,404,000 (2019: Nil) respectively in connection with goodwill allocated to Automotive Engines CGU and the property, plant and equipment of the Automotive Engines CGU for the six month period ended 30 June 2020 ("**2020 Interim Valuation**"). The impairment losses are made based on the results of impairment tests for the goodwill and the property, plant and equipment using their value in use calculation with reference to a valuation performed by Moore Transaction Services Limited ("**Moore**"), (formerly known as "**Moore Stephens Advisory Services Limited**"), an independent professionally qualified valuer.

The following describes each key assumption on which management has based, to undertake impairment testing of goodwill and property, plant and equipment:

(a) the cash flow projections from 1 July 2020 to 31 December 2024 (the "**Forecast Period**") on management expectation of future business performance and prospects of the Automotive Engines CGU;

(b) Since only the restructuring on BAIC Yinxiang is making progress, the uncertainty about the resumption of the operations of other Automotive Engines Business Customers is very high. It is therefore assumed only BAIC Yinxiang can resume its operations during the Forecast Period. Therefore, only potential cashflow from the purchase plan of BAIC Yinxiang is considered in the projected cashflow during the Forecast Period;

(c) given the restructuring of BAIC Yinxiang is still in progress, it is assumed BAIC Yinxiang can only resume its operations and execute its purchasing plan from 2021 onwards;

(d) downward adjustments of 77% on the quantity from the purchasing plan of BAIC Yinxiang were made by the management considering the historical difference between the actual purchase from BAIC Yinxiang and the past purchase plans, the uncertainty of the success of the restructuring as well as the potential impact from the possible new engines production line to be injected into BAIC Yinxiang. The forecasted revenue during the Forecast Period ranges from approximately HK$57,847,000 for the year ending 31 December 2021 to HK$127,530,000 for the year ending 31 December 2024;

(e) the net (loss)/profit margin of (12.7%) to 1.4% throughout the Forecast Period were estimated by the management based on the historical gross profit margin and fixed overheads with downward adjustments considering higher marketing expenses in the future. The forecasted net loss during the Forecast Period ranges from net loss of HK$7,366,000 to net profit HK$1,765,000 from the year ending 31 December 2021 to the year ending 31 December 2024;

(f) the post-tax discount rate of 18.26% based on the weighted average cost of capital representing the weighted average return attributable to all of the operating assets of the CGU; the pre-tax discount rate of 20.29% determined by an iterative computation so that the value in use determined using pre-tax cash flows and a pre-tax discount rate equals value in use determined using post-tax cash flows and a post-tax discount rate; and

(g) the growth rate beyond 2024 was 2.5% which did not exceed the long-term average growth rate of the industry.

The significant changes of the inputs and assumptions used in the 2020 Interim Valuation from those previously adopted in 2019 is the downward adjustment from the purchase plan of BAIC Yinxiang increased from 70% in 2019 to 77% in 2020 due to the increased uncertainty of the future orders for BAIC Yinxiang given the possible new production line to be injected.

The recoverable amount of the Automotive Engines CGU from the impairment assessment using the above key assumptions against the carrying amount of the Automotive Engines CGU as at 30 June 2020 and 31 December 2019 are analysed below:

	Unaudited 30 June 2020 ***HK$'000***	Audited 31 December 2019 *HK$'000*
Recoverable amount of CGU per valuation	–	48,000
Carrying amount of the CGU:		
Property, plant and equipment	–	31,443
Goodwill	–	16,557
	–	48,000
Headroom Available	–	–

Based on the impairment assessment for the year ended 30 June 2020, the Board estimated that the Automotive Engines Business Customers would generate to the Group an aggregate revenue of HK$57,847,000, HK$75,317,344 and HK$98,020,000 for the years ending 31 December 2021, 2022 and 2023 and an aggregate net loss before any impairment loss of goodwill and property, plant and equipment of HK$7,366,000, HK$5,181,000 and HK$2,125,000 for the years ending 31 December 2021, 2022 and 2023.

11. CONTRACT ASSETS

	Unaudited 30 June 2020 ***HK$'000***	Audited 31 December 2019 *HK$'000*
Contract assets arising from:		
Construction services	**5,351**	4,006
Civil engineering services	**68,014**	56,718
	73,365	60,724
Impairment	**(397)**	(101)
	72,968	60,623

The excess of cumulative revenue recognised in profit or loss over the cumulative billings for construction or civil engineering services are recognised as contract assets. Included in contract assets for construction or civil engineering services are retention receivables. Upon completion of construction or civil engineering work and acceptance by customer, the amounts recognised as contract assets are reclassified to accounts receivables. The decrease in contract assets in 2020 and 2019 was the result of decrease in ongoing provision for both construction and/or civil engineering services at the end of each of the years. The Group's trading terms and credit policy with customers are disclosed in note 12 to the financial statements.

The expected timing of recovery or settlement for contract assets is as follows:

	Unaudited 30 June 2020	Audited 31 December 2019
	HK$'000	*HK$'000*
Within one year	**66,512**	54,599
After one year	**6,456**	6,024
Total contract assets	**72,968**	60,623

The movements in the loss allowance for impairment of contract assets are as follows:

	Unaudited 30 June 2020	Audited 31 December 2019
	HK$'000	*HK$'000*
At beginning of period	**101**	413
Impairment/(reversal of impairment) of losses *(note 6)*	**296**	(312)
At end of period	**397**	101

Included in the above impairment allowance for contract assets is an allowance for an individually impaired contract asset of HK$397,000 (31 December 2019: HK$101,000) which was considered in default due to indicators which showed that the Group unlikely to receive the outstanding contractual amount in full. Except for the specific impairment allowance mentioned above, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the accounts receivable as the contract assets and the accounts receivable are from the same customer bases, the expected credit losses of contract assets were minimal as at 30 June 2020 and 31 December 2019.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

	Unaudited 30 June 2020	Audited 31 December 2019
Expected credit loss rate	**0.26%–0.25%**	0.00%–4.85%
	HK$'000	*HK$'000*
Gross carrying amount	**73,365**	60,724
Expected credit losses	**397**	101

12. ACCOUNTS RECEIVABLES

Accounts receivables represented receivables for contract work and sale of automotive engines. The payment terms of contract work receivables are stipulated in the relevant contracts and the credit period is generally one month. The payment terms for receivables arising from sales of automotive engines are mainly on credit and the credit period is generally three months. The carrying amounts of accounts receivables approximate to their fair values.

	Unaudited 30 June 2020 ***HK$'000***	Audited 31 December 2019 *HK$'000*
Accounts receivable	**692,521**	698,306
Impairment	**(484,942)**	(491,100)
	207,579	207,206

The ageing analysis of the accounts receivable as at the end of the reporting period, based on the invoice or delivery date and net of loss allowance, as follows:

	Unaudited 30 June 2020 ***HK$'000***	Audited 31 December 2019 *HK$'000*
1 to 3 months	**36,180**	32,218
More than 3 months but less than 6 months	**394**	117
Over 6 months	**171,005**	174,871
	207,579	207,206

The movements in the loss allowance for impairment of accounts receivables are as follows:

	Unaudited 30 June 2020 ***HK$'000***	Audited 31 December 2019 *HK$'000*
At the beginning of period	**491,100**	144,452
Impairment losses, net	**3,329**	349,156
Exchange realignment	**(9,487)**	(2,508)
At the end of period	**484,942**	491,100

Impairment

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses on remaining accounts receivables. The Group determines the provision for expected credit losses by grouping together accounts receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions.

Set out below is the information about the credit risk exposure on the Group's accounts and bills receivables using a provision matrix:

	Current	Pass due 1-3 months	Pass due Over 3 months	Total
30 June 2020 (Unaudited)				
Expected credit losses rate	**0.2%**	**0.3%**	**73.9%**	**70.0%**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Gross carrying amount	**36,238**	**396**	**655,887**	**692,521**
Expected credit losses	**59**	**1**	**484,882**	**484,942**
31 December 2019 (Audited)				
Expected credit losses rate	0.6%	0.0%	73.7%	70.3%
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Gross carrying amount	32,236	117	665,953	698,306
Expected credit losses	18	—	491,082	491,100

Set out below is the information about the credit risk exposure on the Group's accounts receivables by business segments:

	Civil Engineering & Construction		**Automotive Engines**		**Total**	
	Unaudited 30 June 2020 ***HK$'000***	Audited 31 December 2019 *HK$'000*	**Unaudited 30 June 2020** ***HK$'000***	Audited 31 December 2019 *HK$'000*	**Unaudited 30 June 2020** ***HK$'000***	Audited 31 December 2019 *HK$'000*
Gross amount	**37,465**	33,125	**655,056**	665,181	**692,521**	698,306
Impairment	**(63)**	(18)	**(484,879)**	(491,082)	**(484,942)**	(491,100)
	37,402	33,107	**170,177**	174,099	**207,579**	207,206

The Group engaged Moore Transaction Services Limited ("**Moore**"), (formerly known as Moore Stephens Advisory Services Limited) to perform an independent assessment report to provide references to the Group for the assessment of expected credit loss of accounts and bills receivables for the Company in accordance to HKFRS 9.

Concerning the civil engineering and construction segment, since the customers were mainly institutions related with the Hong Kong Government, public companies or associates of public companies, Moore have obtained or estimated their relevant credit ratings and determined the relevant default and recovery rates according to historical statistics. The Group has also considered possible changes in the macro economy and other factors which may result in different default behavior and credit risks of the debtors as compared to its historical performance. Based on the available information as of the time, it was not expected there could be changes in the credits of the customers in this segment.

Concerning the Automotive Engines segment, the full resumption of production of the Automotive Engines Business Customers encountered further delay during 2019 due to the shortage in supply due to the suppliers' concern on the payment ability of the Automotive Engines Business Customers. The Automotive Engines Business Customers need to undergo further financial and operational restructuring to address the suppliers' concern but such restructuring is still in progress. Based on discussion with the Automotive Engines Business Customers, as of the result date, only the restructuring of one of the Automotive Engines Business Customers, BAIC Yinxiang is making progress but the result of the restructuring is still uncertain. Moreover, it is expected the COVID-19 outbreak will further delay the restructuring negotiation and progress.

For the six months period ended 30 June 2020, the resumption progress of the key automotive engines business customers remained un-promising. The restructuring of BAIC Yinxiang is still in progress and the result remained uncertain. The resumption target, plan or schedule of BAIC Yinxiang remained unknown to the Group. Considering the above factors, default rate of 100% was assigned to all Automotive Engines Business Customer. Relevant recovery rates of 38.1%, which is determined according to historical statistics of the market for a lowest credit rating of CCC grade, was assigned to BAIC Yinxiang and 12.5%, which is estimated from the average recovery rate from liquidation cases in China, was assigned to other Automotive Engines Business Customers. There is no no significant change of assumption from 2019.

Expected credit losses for both segments were calculated according to the above basis and impairment loss were made accordingly to determine the carrying amount of accounts and bills receivables.

The major impaired and overdue accounts and bills receivables were from the Automotive Engines segment. In order to recover these impaired and overdue accounts and bills receivables, the Group has taken up and will take the following actions:

- demanding letters were sent to the customers for the overdue balances;
- regularly communicate with the customers on the latest development of the restructuring exercise;
- site visits to the customers were performed regularly to verify the restructuring progress and closely communicate to the customers;
- the Group has engaged a local legal adviser to represent the Group in the process to ensure the rights of the Group would be protected;
- the Group has reported the liabilities owed by BAIC Yinxiang to the restruction committee of BAIC Yinxiang for their restructing plan; and
- the Group has not filed winding-up petition against the customers due to the consideration of the long-term relationship with the customers as well as the understanding that the restructuring plan was still in progress. It is also advised by the local legal advisor that cost of initiation of court action will be very high and the rights of the Group would not be infringed if other creditors file the wind-up petition earlier than the Group. Having said that, the Group will continue to monitor the situation and seek legal advice on appropriate actions steps in the future to best recover the accounts receivables.

The basis of determining the inputs and assumption and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

13. ACCOUNTS PAYABLE

An ageing analysis of accounts payable at the end of each reporting period, based on the invoice date, is as follows:

	Unaudited 30 June 2020 ***HK$'000***	Audited 31 December 2019 *HK$'000*
Current to three months	**36,864**	47,144
Four to six months	**322**	359
Over six months	**262,859**	265,797
	300,045	313,300

As at 30 June 2020, retentions payable included in accounts payable amounted to HK$8,714,000 (31 December 2019: HK$8,444,000), which are normally settled on terms ranging from two to three years. The carrying amounts of accounts payable approximate to their fair values.

Accounts payable are non-interest bearing and are normally settled on terms ranging from 7 to 120 days. The payment terms are stipulated in the relevant contracts.

14. CONVERTIBLE BONDS

The convertible bonds recognised in the consolidated statement of financial position are bifurcated into two components for accounting purpose, namely the liability component and the equity component, and the movements of these components during the reporting period are as follows:

	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
At 31 December 2018 and 1 January 2019 (Audited)	352,411	375,576	727,987
Interest expense	33,922	–	33,922
At 31 December 2019 and 1 January 2020 (Audited)	386,333	375,576	761,909
Interest expense	13,867	–	13,867
(Gain)/Loss on extinguishment of convertible bonds	(302,173)	8,461	(293,712)
At 30 June 2020 (Unaudited)	**98,027**	**384,037**	**482,064**

On 4 February 2016, the Company issued zero coupon convertible bonds with an aggregate principal amount of HK$390,000,000 to Power Expert Global Limited ("**Power Expert**") as part of the consideration for the acquisition of the Automotive Engines Business. The maturity date of the convertible bonds is on the second anniversary of the date of issuance (i.e. 4 February 2018). The convertible bonds bear no interest on the principal amount. No security or guarantee is granted in respect of the convertible bonds. The convertible bonds can be converted into 195,000,000 ordinary shares in the Company at the initial conversion price of HK$2.00 per conversion share (subject to adjustment pursuant to the terms of the convertible bonds). The Company may at any time before the maturity date by written notice redeem the convertible bonds at 100% of the principal amount. Any amount of the convertible bonds which is redeemed by the Company will forthwith be cancelled.

On 13 March 2018, the Company has executed the extension of the maturity date of the convertible bonds for 2 years from 4 February 2018 to 4 February 2020. On 8 November 2019, the Company and the then holder of the convertible bonds, Power Expert, entered into an amendment agreement, pursuant to which (i) the maturity date of the convertible bonds shall be extended for 5 years to 4 February 2025. This proposed amendment took effect on 14 January 2020 ("**CB Extension**"). As a result of CB Extension, the liability and equity component was extinguished by HK$302,173,000 and (HK$8,461,000) respectively based on revaluation upon the date of execution, i.e. 14 January 2020. The revaluation was carried out by Moore. On the other hand, the carrying amount has been charged with imputed interest.

On 3 February 2020, the Company received (i) a duly-executed transfer notice from Power Expert notifying the Company that Power Expert has agreed to transfer the convertible bonds to LE Group Holdings Pte. Ltd. ("**LEGH**"). The Company has given its consent on the transfer and issued new certificates of the convertible bonds to LEGH.

As at 30 June 2020, the convertible bonds had a carrying amount of HK$482,064,000 (31 December 2019: HK$761,909,000), in which HK$384,037,000 (31 December 2019 HK$375,576,000) was recognized as equity and HK$98,027,000 was recognized as non-current liabilities (31 December 2019: HK$386,333,000).

At 30 June 2020 and 31 December 2019, no convertible bonds were converted and the outstanding principal amount of the convertible bonds was HK$390,000,000.

15. PROMISSORY NOTES

	Unaudited 30 June 2020 *HK$'000*	Audited 31 December 2019 *HK$'000*
First Note	**116,726**	235,372
Second Note	**157,923**	318,613
	274,649	553,985

On 4 February 2016, the Company issued two promissory notes with face values of HK$174,250,000 (the "**First Note**") and HK$235,750,000 (the "**Second Note**") in favour of Power Expert as part of the consideration for the Engines Acquisition. Both the First Note and Second Note carry interest at a rate of 10% per annum. The outstanding principal amounts plus any accrued interest will be repayable on the maturity date falling on the second anniversary of the date of the First Note and Second Note, i.e. 3 February 2018.

On 31 December 2017, the Company had extended the maturity date of the First Note and Second Note for 2 years from 4 February 2018 to 4 February 2020 and the interest rate was adjusted downwards from 10% to 8% per annum, all accrued and outstanding interest shall be repaid on the extended maturity date of 4 February 2020.

On 8 November 2019, the Company and Power Expert entered into an amendment agreement, pursuant to which the term of the promissory notes will be changed to perpetual and the interest rate will be fixed at 5% per annum with effect from 5 February 2020, payable annually and the interest accrued on or before 4 February 2020 shall be payable on 4 February 2025 ("**PN Extension**"). Further details are set out in the Company's announcement dated 8 November 2019 and the Company's circular dated 19 December 2019. This proposed amendment took effect on 14 January 2020. As a result of PN Extension, the gain on modification of promissory notes amounted to HK$294,577,000 was recognised based on revaluation upon the date of execution, i.e. 14 January 2020. The revaluation was carried out by Moore.

The carrying amounts of the First Note and Second Note at the end of reporting period were computed by discounting the face values of the notes by the effective interest rate and the outstanding interest payable.

On 3 February 2020, the Company received an assignment notice from Power Expert notifying the Company that Power Expert has agreed to assign the promissory notes to LEGH. The Company has given its consent on the transfer and issued new certificates of the promissory notes to LEGH.

As at 30 June 2020, the promissory notes with carrying amount of HK$274,649,000 (2019: HK$553,985,000) was recognized as non-current liabilities.

16. CONTINGENT LIABILITIES

As of 30 June 2020, the Group had the following contingent liabilities:

(a) The guarantees given by the Group to certain banks in respect of performance bonds in favour of certain contract customers amounted to HK$14,057,000 (31 December 2019: HK$8,635,000).

(b) In the ordinary course of the Group's construction business, the Group has been subject to a number of claims due to personal injuries suffered by employees of the Group or the Group's sub-contractors in accidents arising out of and in the course of their employment. The directors are of the opinion that such claims are well covered by insurance and would not result in any material adverse impact on the financial position or results and operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL REVIEW

For the six months ended 30 June 2020, the Group has engaged in two business segments, which are (i) civil engineering works and building construction and maintenance works (the "**Civil Engineering and Construction Business**"); and (ii) development, production and sale of automotive engines (the "**Automotive Engines Business**").

For the six months ended 30 June 2020, the Group recorded a consolidated revenue of approximately HK$215.8 million (six months ended 30 June 2019: approximately HK$246.2 million). The Group recorded a profit attributable to owners of the parent of approximately HK$499.1 million (six months ended 30 June 2019: loss attributable to owners of the parent of approximately HK$263.4 million).

Such result was primarily attributable to gain on the extinguishment of convertible bonds and modification of promissory notes in an aggregated amount of approximately HK$588.3 million during the six months ended 30 June 2020. Such gain was partly offset by provision of impairment losses of approximately HK$16.3 million and HK$28.9 million for the goodwill and property, plant and equipment of the Automotive Engines Business respectively.

Basic and diluted earnings per share for the six months ended 30 June 2020 were approximately HK$249.5 cents respectively (six months ended 30 June 2019: basic and diluted loss per share of approximately HK$131.7 cents).

Civil Engineering and Construction Business

For the six months ended 30 June 2020, the Civil Engineering and Construction Business managed to record a stable performance, despite of the grave challenges from the COVID-19 outbreak and the economic downslope in Hong Kong.

As a main contractor of the contracts awarded to the Group, the Civil Engineering and Construction Business offers high value-added services that encompass works from the procurement of materials and equipment, selection of sub-contractors to on-site supervision, work progress monitoring and overall co-ordination of the day-to-day work of projects. All of the Civil Engineering and Construction Business' contracts undertaken for both civil and building construction business were for customers which are independent third parties including certain departments of the Government of Hong Kong, public utilities companies and private organizations in Hong Kong.

For the six months ended 30 June 2020, revenue generated from the Civil Engineering and Construction Business was approximately HK$213.4 million (six months ended 30 June 2019: approximately HK$176.2 million), represented approximately 98.9% of the total revenue of the Group (six months ended 30 June 2019: approximately 71.6%). For the period under review, included in the turnover was: (i) revenue from civil engineering works of approximately HK$165.0 million (six months ended 30 June 2019: approximately HK$145.3 million); and (ii) revenue from building construction and maintenance works of approximately HK$48.4 million (six months ended 30 June 2019: approximately HK$30.9 million). For the six months ended 30 June 2020, the gross profit of the Civil Engineering and Construction Business was approximately HK$6.1 million (six months ended 30 June 2019: approximately HK$1.6 million), representing a gross profit margin of approximately 2.8% (six months ended 30 June 2019: approximately 0.9%).

As of 30 June 2020, the Group had 13 significant projects in progress. 4 of them were building construction and maintenance projects while the remaining were civil engineering construction projects.

As of 30 June 2020, the total contract sum and the total outstanding values of the Group's substantial projects in progress were approximately HK$609.1 million and HK$283.1 million respectively (31 December 2019: approximately HK$566.1 million and HK$300.1 million respectively).

Despite the tough operating environment in Hong Kong, the Civil Engineering and Construction Business maintained its competitive advantages, which are to provide high-quality services of a wide scope and to maintain a cordial client relationship, and the progress in obtaining new contracts managed to record a stable performance for the six months ended 30 June 2020.

The Group has been awarded 4 new contracts for the six months ended 30 June 2020:

– 2 contracts from Hong Kong Telecommunication Limited for Provision of Integrated Field Words & Civil Work

– Civil and Building Works for North Point 132kV GIS improvement

– Improvement Works for Elevated Cable Trough at Deep Water Bay

Automotive Engines Business

For the six months ended 30 June 2020, the Automotive Engines Business witnesses a stagnancy with dimmer possibility of a turnaround in the operation. Under the pressure of the COVID-19 outbreak and the prolonged restructing progress of the key customers (the "**Automotive Engines Business Customers**"), there has only been very minimal operation recorded in this segment.

For the six months ended 30 June 2020, revenue generated from the Automotive Engines Business was decreased by 96.5% to approximately HK$2.4 million (six months ended 30 June 2019: approximately HK$70 million), represented approximately 1.1% of the total revenue of the Group (six months ended 30 June 2019: approximately 28.4%). For the six months ended 30 June 2020, the gross loss of the Automotive Engines Business was approximately HK$0.1 million (six months ended 30 June 2019: approximately HK$0.5 million), representing a gross loss margin of approximately 3.0 % (six months ended 30 June 2019: approximately 1.5%).

For the six months ended 30 June 2020, the resumption progress of BAIC Yinxiang was still in progress and the result remained uncertain. The resumption target, plan or schedule of BAIC Yinxiang remained unknown to the Group. Due to the unsatisfactory progress of the customers' resumption, together with the heavy impact of the COVID-19 outbreak, the Automotive Engines Business recorded a minimal operation for the six months ended 30 June 2020. Moreover, based on discussion with BAIC Yinxiang, a new engine production line may be injected into BAIC Yinxiang after the restructuring which may reduce their orders to the Automotive Engines Business in the future. Impairment losses of approximately HK$28.9 million and HK$16.3 million have been made on the property, plant and equipment and goodwill respectively for the six months ended 30 June 2020.

PROSPECTS

The management of the Group remained cautious and conservative on the prospects in the year 2020. Looking into future, the economy is expected to remain battered amid the COVID-19 outbreak and the America/China conflict.

For the Civil Engineering and Construction Business, although the operating environment in Hong Kong is expected to remain tough in the coming years such as continuously rising wages and cost of construction materials, the Company is confident that the Group would be capable of securing promising business opportunities given its vast experience in handling a wide variety of construction works. The Group will continue to adopt a prudent approach when submitting new tenders.

The Group expects the delay in the restructuring and resumption of production of the Automotive Engines Business Customers will continue to adversely affect the Automotive Engines Business, and the COVID-19 outbreak will further delay the restructuring negotiation and progress. There will be a dimmer hope that the Automotive Engines Business Customers can resume their full production before 2021 despite a strong support from the local government to the industry.

Due to the fact that BAIC Yinxiang has not officially started its liquidation progress, the Group as a debtor remains in a passive situation without much to do. The Group has adopted a conservative strategy with a focus on monitoring the status of the resumption plan or a liquidation of the key customers of the Automotive Engines Business Customers, with an aim to recover its debts to the maximum. Also, the Company will not rule out the possibility of searching for opportunity to dispose of the Automotive Engines Business if the situation persists and/or the opportunities arise.

Looking ahead, the Directors are cautious about the prospect of the Group's operation and business in the late half of 2020 and will continue to pursue costs control initiatives in its business segments.

Meanwhile, the Group shall also look for opportunities which can reinforce the current business segments in the Group or provide sound diversification prospects, with an aim to improve the performance and maximize the interest of the shareholders. For the six months ended 30 June 2020, the management has conducted a strategic review on the business portfolio of the Group, covering, among other things (i) the Group's results and future; (ii) the Civil Engineering and Construction Business; (iii) the Automotive Engines Business; and (iv) potential diversification pathways. However, materialization of such opportunities requires more information to be collected and assessed, including the potential projects' suitability and acceptability, and more importantly, the feasibility. Should there be any development, the Company will make further announcement(s) in relation to the above matters as and when appropriate.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's operations, financials and prospects are affected by risks and uncertainties. The risk factors listed below may directly or indirectly lead to significant differences in the Group's operating performances, financial positions and development prospects from its expected or past performances. These factors are not comprehensive, and there may be other risks and uncertainties that are not known by the Group or may not be noticeable at present, but may become significant in the future.

Business Risk

Performance of all business segments of the Group may be affected by fluctuations in market prices and market demands of the Group's final products and services. On the other hand, raw materials or outsourced services which are provided by the Group's suppliers are subject to price fluctuations. The Group does not enter into any material contracts to hedge against such price fluctuations. Therefore, any increases in these raw materials or outsourced services will exert pressures on the Group's production costs, gross profits and final prices that the Group in turn charges the customers. If the Group fails to adapt and respond successfully to the changing demands and supplies, it may adversely affect the business performance and development prospects.

Industry Risk

All business segments of the Group are operated in industries which are highly competitive. Competition may intensify as the Group's competitors expand their product or service, lower their prices, or increase their qualities. There may be new competitors entering the Group's existing markets as well. If the Group does not compete successfully against existing and new competitors, the Group may not be able to maintain its existing business scale and operation performance.

Policy Risk

Some business segments of the Group must abide by various policies and regulations. For example, the Civil Engineering and Construction Business is subject to compliance requirements imposed by the Hong Kong government. The regulators may require the Group to apply for new licenses, and impose new rules, regulations or requirements. Changes in policies and regulations will affect the development of the Group's business, such as increasing compliance costs and reducing business opportunities.

Credit Risk

All business segments of the Group allow a credit for their customers' payment. All trade and other receivables are accounted by their carrying amounts less expected credit loss. In the past, the Group has experienced significant delay in the payment of the trade and other receivables, especially in the Automotive Engines Business, and therefore some credit loss has been recognized in the financial statements of the Group in accordance with the accounting standards. However, the impaired amounts of the trade and other receivables do not represent the Group's maximum exposure to credit risk. Recoverability of such receivables depends on a lot of factors, including the general economy, government policies, investor confidences, and most importantly, the business performances and financial positions of each debtor.

Liquidity Risks

As at 30 June 2020, the Group recorded a net liability position, indicating that the Group was exposed to liquidity risk. Despite that the Group has some measures to raise additional working capital to finance its operation, there is always a risk that the Group cannot meet its financial obligations as they fall due.

Event Risks

Event risk refers to the risk of a negative impact on the Company's operational performance and financial position as a result of an unexpected event like a natural disaster or an industrial accident. These kinds of events may interrupt the Group's operations, increase prices of raw material and outsourced services, and deteriorate other risks and uncertainty that the Group are facing. All such events are outside control of the Group and there is no guarantee that the Group's responsive measures are sufficient to protect the Group's interests. For the six months ended 30 June 2020, the COVID-19 outbreak has caused a significant downslope in the local economies, and also increased the safety and hygiene regulations imposed by the governments which in turn put a high cost pressure to the Group. Save for these, the management are of the view that more profound impacts of the COVID-19 are yet to be released and will be long-lasting.

CAPITAL STRUCTURE, FINANCIAL RESOURCES, LIQUIDITY AND GEARING

As at 30 June 2020, the Group had cash and cash equivalents of approximately HK$55.9 million, representing a decrease of approximately 13.7% from approximately HK$64.8 million as at 31 December 2019. The Group had not pledged any bank deposits for the bank loans. The Group's cash and cash equivalents were denominated in HK$ and RMB.

As at 30 June 2020, the total assets were approximately HK$366.5 million, representing a decrease of approximately 16.5% from approximately HK$439.1 million as at 31 December 2019. The decrease was mainly due to the impairment of property, plant and equipment and goodwill of approximately HK$28.9 million and HK$16.3 million respectively made on the Automotive Engines Business.

As at 30 June 2020, the total liabilities were approximately HK$832.6 million, representing decrease of approximately 41.1% from approximately HK$$1,413.9 million as at 31 December 2019. The decrease was mainly due to the extinguishment of convertible bonds and modification of promissory notes in an aggregated of an amount of approximately HK$567.6 million.

On 8 November 2019, the Company and the then holder of the convertible bonds and the promissory notes, Power Expert, entered into an amendment agreement, pursuant to which (i) the maturity date of the convertible bonds shall be extended for 5 years to 4 February 2025; and (ii) the term of the promissory notes will be changed to perpetual and the interest rate will be fixed at 5% per annum with effect from 5 February 2020, payable annually and the interest accrued on or before 4 February 2020 shall be payable on 4 February 2025. This proposed amendment took effect on 14 January 2020. Following the amendment, majority of the convertible bonds and the promissory notes were categorized as non-current liabilities, and accordingly, the pressure of repayment on the Company has been significantly levitated.

As at 30 June 2020, the convertible bonds had a carrying amount of approximately HK$482.1 million (31 December 2019: approximately HK$761.9 million), in which approximately HK$384.0 million (31 December 2019: approximately HK$375.6 million) was recognized as equity and approximately HK$98.0 million was recognized as non-current liabilities (31 December 2019: approximately HK$386.3 million).

As at 30 June 2020, the promissory notes had a carrying amount of approximately HK$274.6 million was recognized as non-current liabilities. (31 December 2019: approximately HK$554.0 million)

Interest-bearing bank and other borrowings of the Group comprised (i) other loans from independent third parties of approximately HK$46.3 million (31 December 2019: approximately HK$53.9 million) with the contractual interest of 5.0% to 12.0% per annum; and (ii) bank loans of nil as at 30 June 2020 (31 December 2019: approximately HK$4.1 million with an interest rate of the Hong Kong Inter-Bank Offered Rate plus 2.5% per annum, of which a corporate guarantee was given by the Company on the bank loans). They are repayable within 1 to 3 year.

As at 30 June 2020, the Group had banking facilities of approximately HK$30.0 million (31 December 2019: approximately HK$42.8 million) of which approximately HK$15.9 million was not utilized and was secured by corporate guarantees.

As at 30 June 2020, the net current liabilities were approximately HK$46.3 million, representing a decrease of approximately 95.8% from approximately HK$980.8 million as at 31 December 2019. The decrease in net current liabilities was primarily attributable to (i) the extinguishment of convertible bonds and modification of promissory notes in an aggregated of an amount approximately HK$588.3 million; and (ii) the reclassification of the convertible bonds and promissory notes from current liabilities to non-current liabilities.

Current ratio of the Group was approximately 0.9 as at 30 June 2020 (30 December 2019: approximately 0.3), which is calculated by dividing current assets by current liabilities. The significant improvement was due to the an amendment on the terms of the convertible bonds and the promissory notes which took effect on 14 January 2020, the repayment date of the convertible notes was extended to 4 February 2025 and the promissory notes was changed to perpetual. Such amendments have leaded to an improvement on the general liquidity of the Group, and levitated the Group's pressure to repay its debts.

Gearing ratio is calculated based on the amount of net cash and bank balances (interest-bearing borrowings, liability component of the convertible bonds and promissory notes less cash and cash equivalent) divided by the total equity. The gearing ratio as at 30 June 2020 and 31 December 2019 are not available because the Group reported a negative equity attributable to owners of the parent as at 30 June 2020 and 31 December 2019.

CONVERTIBLE BONDS AND PROMISSORY NOTES

On 4 February 2016, the Company issued (i) zero coupon convertible bonds with an aggregate principal amount of approximately HK$390.0 million; and (ii) promissory notes in the aggregate principal amount of approximately HK$410.0 million to Power Expert as part of the consideration for the acquisition of 100% equity interest in Well Surplus Enterprises Limited and its subsidiaries in October 2015.

On 8 November 2019, the Company and Power Expert entered into an amendment agreement, pursuant to which (i) the maturity date of the convertible bonds shall be extended for 5 years to 4 February 2025; and (ii) the term of the promissory notes will be changed to perpetual and the interest rate will be fixed at 5% per annum with effect from 5 February 2020, payable annually and the interest accrued on or before 4 February 2020 shall be payable on 4 February 2025. Further details of the amendment are set out in the Company's announcement dated 8 November 2019 and the Company's circular dated 19 December 2019. This proposed amendment took effect on 14 January 2020.

On 3 February 2020, the Company received (i) a duly-executed transfer notice from Power Expert notifying the Company that Power Expert has agreed to transfer the convertible bonds to LEGH; and (ii) an assignment notice from Power Expert notifying the Company that Power Expert has agreed to assign the promissory notes to LEGH. The Company has given its consent on the transfer and issued new certificates of the convertible bonds and the promissory notes to LEGH.

GOING CONCERN

Given the loss-making position of the Group for the six months ended 30 June 2020 and the challenging business environment, including but not limited to the uncertainty in the COVID-19 outbreak and the America/China relationship, the worrisome issue of going concern should be taken into consideration when assessing the prospects of the Group. Nevertheless, the management maintained the opinion that the Group will have sufficient working capital to finance its operation and to meet its financial obligations as and when they fall due in the foreseeable future, based on the following consideration:

(i) following an amendment on the terms of the convertible bonds and the promissory notes which took effect on 14 January 2020, the repayment date of the convertible notes was extended to 4 February 2025 and the promissory notes was changed to perpetual. Such amendments have leaded to an improvement on the general liquidity of the Group, and levitated the Group's pressure to repay its debts;

(ii) a major shareholder of the Company has agreed to provide additional funding by a shareholder's loan of not less than HK$58,600,000 from 1 January 2019 to 31 March 2021 to the Group as and when required, and not to demand for repayment of the amount due by the Group until it is in the position to repay without impairing its liquidity and financial position. As at 30 June 2020, such shareholder loan amounted to approximately HK$11.7 million was drawn down by the Group;

(iii) Power Expert and its shareholder, Mr. Liu Chang, has agreed to provide undertaking and continuous financial support by loans with market interest rate to the Group as and when required prior to 31 March 2021. Despite the fact that Power Expert ceased to be holder of convertible bonds and promissory notes on 3 February 2020, Power Expert still confirmed to provide such financial support to the Group;

(iv) despite the futile result of the restructuring of certain Automotive Engines Business Customers and therefore a dimmer hope of turnaround of the Automotive Engines Business in the near future, there was no immediate cash outflow or capital commitment for this business segment; and

(v) various cost control measures have been taken by the Group to tighten the costs of operations and various general and administrative expense.

The Directors believe that, taking into account the above factors and based on the existing information available to the Group, the Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from 30 June 2020. However, should the above financing or support be unavailable, the Group may be unable to continue as a going concern, in which case adjustments might have to be made to the carrying amounts of the Group's assets to state them at their recoverable amounts, and to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed, the Group did not have any material acquisition or disposals of subsidiaries, associates and joint venture for the six months ended 30 June 2020.

SIGNIFICANT INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2020, the Group did not have any significant investment or capital assets (31 December 2019: nil).

PLEDGE OF ASSETS

As at 30 June 2020, the Group did not have any pledge of assets (31 December 2019: nil).

CONTINGENT LIABILITIES

Detail of the Group's contingent liabilities are set out in note 16 to the financial results.

FOREIGN CURRENCY RISK

Most of the Group's assets and liabilities are denominated in HK$ and RMB, which are the functional currencies of respective group companies. The Group has not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had approximately 429 employees (31 December 2019: 452) in Hong Kong and the PRC. The Group's remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Other staff benefits include bonuses awarded on a discretionary basis, mandatory provident fund scheme for Hong Kong employees, state-sponsored retirement plans for the PRC employees.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed, there was no other significant event after the reporting period and up to the date of this result.

NO OTHER MATERIAL CHANGE

Save as disclosed above, during the six months ended 30 June 2020, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2019.

INTERIM DIVIDEND

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

OTHER INFORMATION

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 11 December 2013, the date on which dealings in its shares first commence on the Stock Exchange.

For the six months ended 30 June 2020, the Company has complied with the code provisions set out in the CG Code with the following exception:

Code provision A.2.1 of the CG Code requires that the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. Before that Mr. Artem Matyushok was appointed as the chief executive officer of the Company on 5 February 2020, the position of the chief executive officer of the Company was vacant. Also, the Company did not have a chairman for the six months ended 30 June 2020 and up to the date of this result. The Company is looking for suitable candidates to fill the vacancy of the chairman of the Company, and will issue a further announcement as and when appropriate.

Code provision A.4.1 of the CG Code requires that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive Director and independent non-executive Directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

Code provision A.4.2 of the CG Code requires that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Mr. Xing Bin ("**Mr. Xing**"), an executive Director, was first appointed as a Director at a meeting of the Board held on 11 September 2015 and was re-elected as a Director at the annual general meeting of the Company held on 23 August 2016. In accordance with the CG Code, Mr. Xing should have been subject to retirement at the 2019 AGM. However, the Company inadvertently did not notice the status of Mr. Xing's directorship. As a result, Mr. Xing did not retire at the 2019 AGM and has continued to act as a Director and his name has continued to appear on the register of directors of the Company as a Director since the conclusion of the 2019 AGM. In order to rectify the non-compliance with the CG Code, the Company hold a Board meeting to confirm the appointment of Mr. Xing as a Director to remove any doubt of Mr. Xing's status as a Director and Mr. Xing shall be re-elected as a Director at the next general meeting of the Company. A Board meeting from which Mr. Xing has abstained from attending and voting was held on 10 February 2019 and the Board has confirmed the appointment of Mr. Xing as a Director. An extraordinary general meeting has been convened on 19 June 2020 to consider and approve the re-election of Mr. Xing as an executive Director.

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders. One independent non-executive Director and two executive Directors were unable to attend the annual general meeting of the Company held on 19 June 2020 (the "**2020 AGM**") and the extraordinary general meeting of the Company held on 19 June 2020 after considering the quarantine measures adopted by the Governments for the COVID-19 outbreak. Nevertheless, other members of the Board (including the chairman of each of the Audit Committee and the Remuneration Committee and the members of the Nomination Committee) attended this meeting to ensure effective communication with the shareholders of the Company.

Code provision E.1.2 of the CG Code requires the chairman of the Board should attend the annual general meeting of the Company. Since the Company has not appointed a chairman of the Board for the six months ended 30 June 2020 and up to the date of this result, no chairman of the Board attended the 2020 AGM, and other members of the Board (including executive Directors, the chairman of each of the Audit Committee and the Remuneration Committee and the members of the Nomination Committee) attended the 2020 AGM to ensure effective communication with the shareholders of the Company.

The Company regularly reviews its corporate governance practices to ensure they comply with the CG Code and align with the latest developments.

CHANGE OF DIRECTORS

From 1 January 2020 to the date of this result:

(i) Mr. Artem Matyushok was appointed as an executive Director and the chief executive officer of the Company with effect from 5 February 2020;

(ii) Mr. Brett Ashley Wight was appointed as an executive Director with effect from 5 February 2020;

(iii) Mr. Lam Wah has been re-designated from a non-executive Director to an executive Director with effect from 3 August 2020; and

(iv) Mr. Liu Wengang has resigned as an executive Director with effect from 20 August 2020.

CHANGES IN INFORMATION OF THE DIRECTORS

Since the date of the 2019 annual report of the Company, Ip Mei Shun, an independent non-executive Director, was engaged with Logic Global Assets Management Limited from 15 August 2020. He was the Managing Partner of Avantfaire Investment Management Limited between August 2018 and July 2020.

Upon specific enquiry by the Company and following confirmations from the Directors, and save as disclosed, there was no change in the information of the Directors required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules for the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code for the six months ended 30 June 2020.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, none of the Directors or chief executive of the Company had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities & Futures Ordinance (the "**SFO**") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code.

SHARE OPTION SCHEME

At the extraordinary general meeting of the Company held on 24 March 2016, the shareholders of the Company approved the adoption of the share option scheme of the Company (the "**Scheme**"). The Scheme was later adopted by the Company on 29 March 2016. For the six months ended 30 June 2020, no options or securities has been granted, exercised, cancelled or lapsed under the Scheme. As at 1 January 2020 and 30 June 2020, there was no outstanding option under the Scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the date of this result, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the issued shares/underlying shares of the Company

Name of shareholders	*Notes*	Nature of interest	Number of ordinary shares/ underlying shares held	Approximate percentage of issued share capital of the Company
Mr. Jiang Jianhui	*(a)*	Interest in a controlled corporation	150,000,000	75.0%
Youth Force Asia Ltd	*(a)*	Beneficial owner	150,000,000	75.0%
Mr. Arrab Chalid	*(b)*	Interest in a controlled corporation	195,000,000	97.5%
LE Group Holdings Pte Ltd	*(b)*	Beneficial owner	195,000,000	97.5%

Notes:

(a) Youth Force Asia Ltd is wholly-owned by Mr. Jiang Jianhui. As such, Mr. Jiang Jianhui is deemed to be interested in the 150,000,000 shares owned by Youth Force Asia Ltd by virtue of the SFO.

(b) On 3 February 2020, the Company received a duly-executed transfer notice from Power Expert Global Limited to transfer all convertible bonds, in the principal amount of HK$390,000,000 issued by the Company, to LE Group Holdings Pte Ltd. LE Group Holdings Pte Ltd is wholly-owned by Mr. Arrab Chalid. As such, Mr. Arrab Chalid is deemed to be interested in the 195,000,000 underlying shares through its interests in the convertible bonds, in the principal amount of HK$390,000,000 issued by the Company, owned by LE Group Holdings Pte Ltd by virtue of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2020.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this result, based on the information that is publicly available to the Group and to the knowledge of the Directors, the Group has maintained sufficient public float as required under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, Mr. Leung Tsz Wing (Chairman), Mr. Zhang Guozhi and Mr. Ip Mei Shun, with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the Board. The Audit Committee has reviewed with management the principal accounting policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2020.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere thanks and gratitude to our management team and staff for their hard work and dedication, as well as our shareholders, business partners and associates, bankers and auditors for their continuous support to the Group.

By order of the Board
Bisu Technology Group International Limited
Lam Wah
Executive Director

Hong Kong, 21 August 2020

As at the date of this announcement, the executive Directors are Mr. Artem Matyushok, Mr. Brett Ashley Wight, Mr. Lam Wah and Mr. Xing Bin; and the independent non-executive Directors are Mr. Ip Mei Shun, Mr. Leung Tsz Wing and Mr. Zhang Guozhi.