THE HONG KONG BUILDING AND LOAN AGENCY LIMITED

香港建屋貸款有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 145)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

INTERIM RESULTS

The Directors of The Hong Kong Building and Loan Agency Limited (the "Company") announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2005 together with the comparative figures for the corresponding period in 2004 as follows.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30th June,	
		2005	2004
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**67,999**	177,603
Cost of sales		**(65,010)**	(166,679)
Gross profit		**2,989**	10,924
Other income		**201**	72
Administrative expenses		**(1,365)**	(1,624)
Other operating expenses		**(3,849)**	(983)
Provision for impairment in value for investment securities		**–**	(1,956)
Profit/(Loss) before tax	*4*	**(2,024)**	6,433
Tax	*5*	**–**	(467)
Profit/(Loss) for the period		**(2,024)**	5,966
Attributable to:			
Equity holders of the Company		**(2,024)**	5,966
		HK cents	*HK cents*
Earnings/(Loss) per share	*6*		
Basic		**(0.90)**	2.65
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	30th June, 2005 HK$'000	31st December, 2004 HK$'000
NON-CURRENT ASSETS		
Fixed assets	**42**	52
Mortgage loans	**850**	1,764
Deferred tax asset	**3,396**	3,396
	4,288	5,212
CURRENT ASSETS		
Financial assets at fair value through profit or loss	**41,553**	–
Other investments in securities	**–**	45,334
Mortgage loans	**558**	1,288
Debtors, prepayments and deposits	**322**	741
Cash and cash equivalents	**171,774**	168,144
	214,207	215,507
CURRENT LIABILITIES		
Creditors and accruals	**1,144**	1,344
NET CURRENT ASSETS	**213,063**	214,163
TOTAL ASSETS LESS CURRENT LIABILITIES	**217,351**	219,375
CAPITAL AND RESERVE		
Equity attributable to equity holders of the Company		
Share capital	**225,000**	225,000
Reserve	**(7,649)**	(5,625)
	217,351	219,375

Note:

1. **Principal accounting policies**

The interim results are unaudited, condensed and have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim results have been reviewed by the audit committee of the Company.

The accounting policies adopted in the preparation of the interim results are consistent with those adopted in the Group's audited financial statements for the year ended 31st December, 2004, except as described below.

The adoption of HKASs 1, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 24, 27, 33, 34, 36, 37 and Hong Kong Financial Reporting Standard ("HKFRS") 3 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's interim results. The impact of adopting the other HKFRSs is summarised as follows.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments which include investments in securities and mortgage loans of the Group.

Until 31st December, 2004, investments in securities of the Group were classified into investment securities and other investments in securities, which were stated in the balance sheet at cost less any impairment losses and at fair value, respectively, and any impairment losses on investment securities and changes in fair value of other investments in securities were recognised in the profit and loss account for the period in which they arise. Mortgage loans are reported on the balance sheet at the total of principal amount outstanding and accrued interest receivable net of provisions for doubtful debts.

From 1st January, 2005 onwards, the Group classifies its investments in the following categories, taking into account the characteristics of the instruments and the measurement basis that has been applied:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss of the Group are financial assets held for trading. Derivatives are also categorised as held for trading unless they are designated as hedges. Purchases and sales of these investments are recognised on trade date. They are carried at fair value by reference to published price quotations in an active market or, for unlisted investment funds, determined on the basis of their last net asset value per unit. Gain or loss arising from a change in fair value shall be recognised in the profit and loss account.

(b) Mortgage loans

Mortgage loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Purchases and sales of these investments are recognised on settlement date. They are recognised initially at fair value and subsequently carried at amortised costs using effective interest method, less any accumulated impairment losses. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed to the extent that such reversal shall not result in a carrying amount of the mortgage loan that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in the profit and loss account.

Impairment provisions for loan advances assessed individually are calculated using a discounted cash flow analysis for the impaired advances. Collective assessment of impairment for individually insignificant items or items where no impairment has been identified on an individual basis is made using formula-based approaches or statistical methods. Impairment provisions for advances will be presented as individually assessed and collectively assessed instead of specific provisions and general provisions. There will be no significant change in the net charge for provisions to profit and loss account.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. Purchases and sales of these investments are recognised on trade date. They are carried at fair value except for certain available-for-sale financial assets that do not have a published quoted price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. The impairment loss is charged to the profit and loss account for the period in which they arise.

The effect of the changes in accounting policies on these financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

– all investment securities of the Group as at 31st December, 2004 were redesignated into available-for-sale financial assets on 1st January, 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's investment securities as at 31st December, 2004 is the same as that for the available-for-sale financial assets; and

– all other investments in securities of the Group as at 31st December, 2004 were redesignated into financial assets at fair value through profit or loss on 1st January, 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's other investments in securities as at 31st December, 2004 is the same as that for the financial assets at fair value through profit or loss.

In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2. Segment information

An analysis of the Group's segment information by business segment is set out below:

	Six months ended 30th June, 2005			
	Mortgage finance *HK\$'000*	**Treasury investments** *HK\$'000*	**Other** *HK\$'000*	**Total** *HK\$'000*
Revenue	**127**	**67,872**	**–**	**67,999**
Other income	**128**	**73**	**–**	**201**
	255	**67,945**	**–**	**68,200**
Segment results	**196**	**97**	**–**	**293**
Unallocated corporate expenses				**(2,317)**
Loss before tax				**(2,024)**
Tax				**–**
Loss for the period				**(2,024)**

	Six months ended 30th June, 2004			
	Mortgage finance *HK\$'000*	Treasury investments *HK\$'000*	Other *HK\$'000*	Total *HK\$'000*
Revenue	277	177,326	–	177,603
Other income	72	–	–	72
	349	177,326	–	177,675
Segment results	349	10,073	(1,956)	8,466
Unallocated corporate expenses				(2,033)
Profit before tax				6,433
Tax				(467)
Profit for the period				5,966

3. **Revenue**

All revenue for the period consists of turnover generated from principal activities of the Group, comprising interest income on mortgage loans and gross income on treasury investments which includes sales proceeds from securities trading and interest income on bank deposits.

	Six months ended 30th June,	
	2005	2004
	HK$'000	*HK$'000*
Mortgage finance:		
Interest on mortgage loans	**127**	277
Treasury investments:		
Interest on bank deposits	**1,557**	376
Sales of other investments in securities	**–**	175,971
Sales of financial assets at fair value through profit or loss	**66,087**	–
Dividend income	**228**	311
Other investment income	**–**	668
	67,999	177,603

4. **Profit/(Loss) before tax**

Profit/(Loss) before tax is arrived at after crediting/(charging):

	Six months ended 30th June,	
	2005	2004
	HK$'000	*HK$'000*
Depreciation	**(12)**	(4)
Dividend income from listed investments	**228**	311
Net realised gain on disposal of financial assets at fair value through profit or loss:		
Listed	**73**	–
Unlisted	**343**	–
Net realised gain on other investments in securities:		
Listed	**–**	13,035
Net unrealised holding gain on financial assets at fair value through profit or loss:		
Listed	**661**	–
Net unrealised holding loss on other investments in securities:		
Listed	**–**	(3,333)
Unlisted	**–**	(204)
Other investment income:		
Listed	**–**	67
Unlisted	**–**	601
Exchange loss, net	**(2,789)**	(574)

5. **Tax**

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the current period. For the six months ended 30th June, 2004, tax charge represents utilisation of deferred tax asset recognised in prior years.

6. **Earnings/(Loss) per share**

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share for the period is calculated based on (i) loss attributable to equity holders of the Company of HK$2,024,000 (2004 – profit of HK$5,966,000); and (ii) the weighted average number of 225,000,000 ordinary shares (2004 – 225,000,000 ordinary shares) in issue during the period.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented for the periods ended 30th June, 2005 and 2004 as there were no dilutive potential ordinary shares.

DISCUSSION AND ANALYSIS OF INTERIM RESULTS

The Hong Kong economy continued to expand at a brisk pace, with GDP grew distinctly by 6.5 per cent. in real terms for the first half of 2005, following 8.2 per cent. strong growth in 2004. Amid the improving labour market conditions and generally upbeat sentiment, domestic consumption picked up. Nevertheless, the Hong Kong's lending business continued to be affected by intense competition and rising operating costs.

Results for the period

Mortgage finance and treasury investments (which includes securities investment and other treasury activities) remained principal businesses of the Group, contributing a total turnover of HK$68 million (2004 – HK$178 million) for the six months ended 30th June, 2005. The Group recorded a loss for the period of HK$2 million, as compared to last period's profit of HK$6 million.

The decrease in turnover and the loss for the period were mainly due to decrease in securities trading activities and the profit arising therefrom.

With rising property prices, the quality of the Group's mortgage loan assets improved. Meanwhile, management continued to closely monitor over the portfolio so that loan loss was kept to a minimum. Given the intense competition in the lending market, the loan portfolio of the Group and the income generated from mortgage finance further reduced.

With tightened cost control, the Group's administrative expenses were 16 per cent. lower than that recorded in the last corresponding period. Included in the operating costs was a loss of HK$2.8 million (2004 – HK$0.6 million) arising from the exchange rate movements on the Group's foreign currency assets during the period.

Financial position

The Group's financial position remained strong and healthy over the period. As at 30th June, 2005, total assets of the Group amounted to HK$218 million (31st December, 2004 – HK$221 million), all of which (31st December, 2004 – 62 per cent.) were denominated in Hong Kong dollars or United States dollars. The exchange rate exposure was considered immaterial.

The Group did not have bank borrowings (31st December, 2004 – Nil) and none of its assets were subject to pledge (31st December, 2004 – Nil). At the balance sheet date, the Group had no material capital commitment or contingent liabilities outstanding (31st December, 2004 – Nil).

Taking into account the loss for the period, net asset value of the Group as at 30th June, 2005 reduced slightly to HK$217 million (31st December, 2004 – HK$219 million). The consolidated net asset value per share stood at HK$0.97 (31st December, 2004 – HK$0.98).

Changes in accounting policies

The Group has adopted the new and revised Hong Kong Financial Reporting Standards which came into effect for accounting periods commencing on 1st January, 2005. It resulted in changes of the Group's accounting policies with details summarised in Note 1 to the interim results. However, they had no significant impact on the Group's net asset value or results.

Staff and remuneration

The Group had 16 (2004 – 13) employees as at 30th June, 2005 and total staff costs incurred during the period amounted to HK$0.7 million (2004 – HK$1.1 million). The Group offers competitive remuneration packages to its employees. Currently, no share option schemes for employees are implemented.

Outlook

The Group expects that the growth pace of the local economy is likely to be moderate, stemming from the impacts of soaring oil prices and rising interest rates. Subject to the disposal of the controlling interest in the Company which is expected to take place on 12th September, 2005 and which will be followed by changes to the Board, the Group will continue its business on a prudent and cautious manner.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2005 (2004 – Nil).

BUSINESS REVIEW AND PROSPECTS

Business review

During the first half of 2005, Hong Kong continued to enjoy strong economic growth reflected in robust exports and rising investments. Improving market conditions and investment sentiment strengthened consumer confidence. However, due to the fluctuation of local and regional stock markets, income generated from securities investments decreased against the corresponding period last year.

Although the upturn of price levels and turnover boosted the local property market, mortgage finance business was still challenging with narrow interest margin and keen competition. The loan portfolio of the Group further reduced and income generated from mortgage loans also dropped as compared to the corresponding period last year.

Amidst this, the turnover of the Group for the period under review amounted to HK$68 million and a loss of HK$2 million was recorded. The Group did not have any bank borrowings and maintained a strong liquidity position.

On 18th June, 2005, HKCB Corporation Limited, the immediate holding company of the Company, entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") regarding the disposal of its entire interest in the shares of the Company, representing approximately 74.8 per cent. of the issued share capital of the Company, to Island New Finance Limited ("Island New Finance") for a total consideration of HK$184 million. As all the conditions of the Sale and Purchase Agreement were fulfilled on 7th September, 2005, completion of the Sale and Purchase Agreement is expected to take place on 12th September, 2005. Subsequent to the completion of the Sale and Purchase Agreement, Island New Finance will make an unconditional mandatory cash offer for the issued shares of the Company in accordance with the Hong Kong Code on Takeovers and Mergers.

Prospects

Looking ahead, despite concerns over rising interest rates and unprecedentedly high oil prices, it is expected that the signing of Phase 2 of the CEPA with China Mainland and global economic growth will provide further momentum to the continued local economic recovery. The Group is cautiously optimistic about general business prospects. Following the completion of the Sale and Purchase Agreement, the Company will become a subsidiary of Island New Finance. Island New Finance is a wholly-owned subsidiary of United Asia Finance Limited which is principally engaged in money lending business.

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

During the six months ended 30th June, 2005, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th June, 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30th June, 2005, except for the code provision C.2 on internal controls (which is applicable to the accounting periods commencing on or after 1st July, 2005) and the following deviations from code provisions A.4.1, A.4.2 and E.1.2:

(i) Non-executive Directors (other than the three independent non-executive Directors appointed with a term of two years) were not appointed for a specific term as required by the Code. However, they are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association, save for Mr. Ning Gaoning who is also the Chairman of the Company, was not subject to retirement by rotation and re-election at the Company's last annual general meeting held on 3rd June, 2005 ("2005 AGM").

(ii) In accordance with the Company's Articles of Association, one-third of the Directors for the time being (or, if their number is a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation at each annual general meeting of the Company, but the Directors were not required to retire by rotation at least once every three years. In addition, according to the Company's Articles of Association, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting, and shall then be eligible for re-election.

(iii) Mr. Ning Gaoning, the Chairman of the Company, was unable to attend the 2005 AGM as he was out of town during that period.

To comply with the Code, discussions will be made with the non-executive Directors about their terms of appointment. The Company's Articles of Association have been amended on 3rd June, 2005 to provide, inter alia, that every director shall be subject to retirement by rotation at least once every three years. It is proposed that relevant amendment will be made to the Company's Articles of Association for approval at the forthcoming general meeting in order that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. The Chairman will use his best endeavours to attend the future annual general meetings of the Company.

By Order of the Board
The Hong Kong Building and Loan Agency Limited
Jark Pui Lee
Director

Hong Kong, 9th September, 2005

As at the date of this announcement, the Board of Directors of the Company comprises ten directors, of which Messrs. Ning Gaoning *(Chairman)*, Leon Nim Leung Chan and Wai Lam Chan as non-executive Directors, Messrs. David T. Yeh *(Chief Executive Officer)*, Jark Pui Lee, Jonathan Miles Foxall and Tai Chiu Ng as executive Directors and Dr. Nai Kong Leung, Messrs. King Fai Tsui and Victor Ha Kuk Yung as independent non-executive Directors.