



**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)**

**FINAL RESULTS**

**FOR THE YEAR ENDED 31ST DECEMBER, 2006**

The Board of Directors (the “Directors”) of The Hong Kong Building and Loan Agency Limited (the “Company”) is pleased to announce the audited results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2006.

**CONSOLIDATED INCOME STATEMENT**

*For the year ended 31st December, 2006*

	<i>Notes</i>	<b>2006</b> <b><i>HK\$'000</i></b>	<b>2005</b> <b><i>HK\$'000</i></b>
Revenue	3	<b>61,516</b>	<b>73,559</b>
Interest income		<b>7,776</b>	4,289
Net gain on sales of held-for-trading investments		<b>3,942</b>	1,067
Fair value gain on held-for-trading investments		<b>2,790</b>	2,159
Other investment income		<b>1,221</b>	937
Other income		<b>182</b>	201
Operating expenses		<b>(3,856)</b>	(4,629)
Net exchange losses		<b>–</b>	(2,789)
Profit before taxation	5	<b>12,055</b>	1,235
Taxation	6	<b>(784)</b>	–
Profit for the year		<b>11,271</b>	<b>1,235</b>
Attributable to:			
Equity holders of the Company		<b>11,271</b>	<b>1,235</b>
		<b><i>HK cents</i></b>	<b><i>HK cents</i></b>
Earnings per share	7		
Basic		<b>5.0</b>	<b>0.5</b>
Diluted		<b>N/A</b>	<b>N/A</b>

## CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		17	10
Mortgage loans	8	4,839	723
Deferred tax assets		2,612	3,396
		<u>7,468</u>	<u>4,129</u>
<b>CURRENT ASSETS</b>			
Mortgage loans	8	3,906	4,457
Held-for-trading investments	9	26,060	41,495
Prepayments, deposits and other receivables		3,251	423
Cash and bank balances		192,073	170,940
		<u>225,290</u>	<u>217,315</u>
<b>CURRENT LIABILITIES</b>			
Other creditors and accruals		877	834
<b>NET CURRENT ASSETS</b>			
		<u>224,413</u>	<u>216,481</u>
		<u><b>231,881</b></u>	<u><b>220,610</b></u>
<b>CAPITAL AND RESERVE</b>			
Share capital		225,000	225,000
Reserve		6,881	(4,390)
		<u><b>231,881</b></u>	<u><b>220,610</b></u>

Notes:

### 1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Companies Ordinance.

### 2. Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group and the Company have applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group and the Company have not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group and the Company.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>5</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>6</sup>
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>8</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007  
<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2009  
<sup>3</sup> Effective for annual periods beginning on or after 1st March, 2006  
<sup>4</sup> Effective for annual periods beginning on or after 1st May, 2006  
<sup>5</sup> Effective for annual periods beginning on or after 1st June, 2006  
<sup>6</sup> Effective for annual periods beginning on or after 1st November, 2006  
<sup>7</sup> Effective for annual periods beginning on or after 1st March, 2007  
<sup>8</sup> Effective for annual periods beginning on or after 1st January, 2008

### 3. Revenue

Revenue represents interest income on mortgage loans and gross income on treasury investments which includes interest income on bank deposits, sales proceeds from securities trading and dividend income.

An analysis of the revenue of the Group by principal activity is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Mortgage finance:		
Interest on mortgage loans	1,381	205
Treasury investments:		
Interest on bank deposits	6,395	4,084
Sales proceeds of held-for-trading investments	52,519	68,333
Other investment income	1,221	937
	<u>61,516</u>	<u>73,559</u>

### 4. Business and geographical segments

#### Business segments

For management purposes, the Group is currently organised into two operating divisions – mortgage finance and treasury investments. These divisions are the basis on which the Group reports its primary segment information. Principal activities are as follows:

- (a) the mortgage finance segment engages in the provision of mortgage finance and other related services; and  
(b) the treasury investments segment includes interest income on bank deposits, securities trading and dividend income.

Segment information about these businesses is presented below:

	2006		
	Mortgage finance <i>HK\$'000</i>	Treasury investments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>1,381</u>	<u>60,135</u>	<u>61,516</u>
Interest income	1,381	6,395	7,776
Net gain on sales of held-for-trading investments	–	3,942	3,942
Segment result	<u>1,400</u>	<u>14,348</u>	15,748
Unallocated expenses			(3,693)
Profit before taxation			12,055
Taxation			(784)
Profit for the year			<u>11,271</u>
Segment assets	<u>8,845</u>	<u>221,117</u>	229,962
Unallocated assets			2,796
Total assets			<u>232,758</u>
Segment liabilities	<u>320</u>	–	320
Unallocated liabilities			557
Total liabilities			<u>877</u>
Other information:			
Impairment allowances on mortgage loans	(163)	–	(163)
Unallocated:			
Capital additions			(12)
Depreciation			(5)

	2005		Total <i>HK\$'000</i>
	Mortgage finance <i>HK\$'000</i>	Treasury investments <i>HK\$'000</i>	
Revenue	205	73,354	73,559
Interest income	205	4,084	4,289
Net gain on sales of held-for-trading investments	–	1,067	1,067
Segment result	299	5,482	5,781
Unallocated expenses			(4,546)
Profit before taxation			1,235
Taxation			–
Profit for the year			1,235
Segment assets	5,207	212,652	217,859
Unallocated assets			3,585
Total assets			221,444
Segment liabilities	364	–	364
Unallocated liabilities			470
Total liabilities			834
Other information:			
Impairment allowances on mortgage loans	(34)	–	(34)
Unallocated:			
Capital additions			(12)
Depreciation			(16)
Loss on disposal of plant and equipment			(38)

### Geographical segments

No geographical segment analysis is presented as all of the Group's business activities during the year under review were conducted in Hong Kong.

### 5. Profit before taxation

Profit before taxation has been arrived at after charging:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Employee benefits expense (including Directors' emoluments):		
Wages and salaries	1,239	1,344
Retirement benefit costs	34	28
	1,273	1,372
Depreciation	5	16
Auditor's remuneration	482	239
Loss on disposal of plant and equipment	–	38
Operating leases payments	85	832
Impairment allowances on mortgage loans	163	34

## 6. Taxation

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong		
Current tax	—	—
Deferred tax:		
Current year	784	—
	<u>784</u>	<u>—</u>

No current tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. The tax charge for the year represents utilisation of deferred tax assets recognised in prior years.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

## 7. Earnings per share

Basic earnings per share is calculated based on the profit for the year attributable to equity holders of the Company of HK\$11,271,000 (2005: HK\$1,235,000) and on 225,000,000 (2005: 225,000,000) ordinary shares in issue during the year.

No diluted earnings per share is presented as there were no potential ordinary shares during the years.

## 8. Mortgage loans

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Fixed-rate loan receivables	1,705	4,000
Variable-rate loan receivables	7,040	1,180
	<u>8,745</u>	<u>5,180</u>
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the balance sheet date)	3,906	4,457
Non-current assets (receivables after 12 months from the balance sheet date)	4,839	723
	<u>8,745</u>	<u>5,180</u>

Fixed-rate loan receivables and variable-rate loan receivables are secured by mortgage loan properties, bearing interest at market interest rates.

Balance of mortgage loans at 31st December, 2006 is net of accumulated impairment allowances of HK\$168,000 (2005: HK\$151,000).

The maturity profile of mortgage loans, net of impairment allowances, at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Repayable:		
Within 3 months	3,528	177
Between 3 months and 1 year	378	4,280
Between 1 and 5 years	1,410	629
After 5 years	3,429	94
	<u>8,745</u>	<u>5,180</u>

The fair value of the mortgage loans, determined based on the present value of the estimated future cash flows discounted using the effective interest rate at 31st December, 2006 approximates to the carrying amount of the mortgage loans.

## 9. Held-for trading investments

Held-for-trading investments include:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Equity securities listed in Hong Kong	<u><b>26,060</b></u>	<u>41,495</u>

The fair value of the above held-for-trading investments is determined based on the quoted market bid prices available on the relevant exchange.

## DIVIDEND

The Directors do not recommend the payment of a final dividend.

## MANAGEMENT DISCUSSION AND ANALYSIS

Benefiting from the stock market boom and thriving economic growth in the Mainland China, the Hong Kong economy has shown its exuberance with strengthened consumer spending and job market. For the year ended 31st December, 2006, the Group recorded a profit attributable to equity holders of the Company of HK\$11.3 million (2005: HK\$1.2 million) with revenue of HK\$61.5 million (2005: HK\$73.6 million).

### Results for the year

Principal businesses of the Group remained as mortgage finance and treasury investments.

The mortgage finance market still remained keenly competitive and interest margin continued to stay low reflecting the low level of the property transactions. The revenue contributed by mortgage finance increased to HK\$1.4 million (2005: HK\$0.2 million) and profit contributed by mortgage finance also increased to HK\$1.4 million (2005: HK\$0.3 million).

The revenue contributed by the treasury investments dropped to HK\$60.1 million (2005: HK\$73.4 million) as a result of decrease in securities trading activities. However, profit contributed by treasury investments increased to HK\$14.3 million (2005: HK\$5.5 million).

### Financial position

At 31st December, 2006, total assets increased slightly to HK\$232.8 million (2005: HK\$221.4 million). All assets were denominated in Hong Kong dollars and henceforth there was no exposure to exchange rate risk.

The Group maintained a very strong liquidity position throughout the year. At the balance sheet date, the Group had listed investments amounting to HK\$26.1 million (2005: HK\$41.5 million) and cash and bank balances amounting to HK\$192.1 million (2005: HK\$170.9 million).

Currently, the Group is debt-free. There were no charges on the Group's assets and the Group had no material capital commitment or contingent liabilities outstanding at the end of the year (2005: Nil).

The net asset value of the Group at 31st December, 2006 increased by 5.1% to HK\$231.9 million (2005: HK\$220.6 million) with the net asset value per share stood at HK\$1.03 (2005: HK\$0.98).

### Staff and remuneration

The Group had 10 (2005: 10) employees at 31st December, 2006 and total staff costs incurred during the year amounted to HK\$1.3 million (2005: HK\$1.4 million). The Group offers competitive remuneration packages to its employees. Currently, there is no share option scheme for employees.

## **Outlook**

Taking advantages of its proximity to the Mainland China, the Hong Kong economy grows in tandem with the Mainland counterparts. However, the volatility of global financial market, the future course of interest rate movements and the implementation of further dampening austerity measures in the Mainland China will definitely have significant effects on the sustainable growth in Hong Kong economy for the year 2007. The management always stays alert of the challenges and opportunities ahead and will try their best efforts to deliver satisfactory results for the shareholders in the year 2007.

## **BUSINESS REVIEW AND PROSPECTS**

### **Business review**

The Hong Kong economy continued to benefit from the sparkling growth in the Mainland counterparts. The rises in the Hong Kong stock market set another record high with Hang Seng Index surpassing previous historical peak. As a result the return on the treasury investments of the Group became the main profit driver of the Group's performance during the year under review. On the other hand, the Group's mortgage finance business remained under pressure amid the persistently keen competitive environment in the residential mortgage market in Hong Kong.

For the year under review, the Group's revenue was HK\$61.5 million and the profit attributable to equity holders of the Company was HK\$11.3 million. The Group was debt-free and maintained a strong liquidity position.

### **Prospects**

The uncertainties relating to future course of interest rate and the implementation of austerity measures in the Mainland China in response to its changing economic situation continue to bear significant impact on the outlook of Hong Kong economy. In addition, the global stock market reacts immediately when the recent turmoil in the US sub-prime mortgage industry comes to light. Yet its impact on the global financial market and economy remains to be seen. While we always stay alert of the challenges as well as opportunities brought about by these uncertainties, we remain cautiously optimistic that given the strengthened job market and consumer spending in Hong Kong, the Group should be able to progress well in the year 2007.

## **PURCHASE, SALE AND REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2006, except for the following deviation from code provision A.4.2.

Code provision A.4.2 stipulates, inter alia, that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

According to the Articles of Association of the Company then in effect prior to 12th May, 2006, any Director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company, and shall then be eligible for re-election.

To comply with this code provision, relevant amendments to the Articles of Association of the Company were proposed and approved by the shareholders at the annual general meeting of the Company held on 12th May, 2006.

Further information on the Company's corporate governance practices and details of the Company's deviations from certain code provisions of the CG Code during the year under review will be set out in the corporate governance report to be contained in the Company's 2006 annual report which will be sent to the shareholders in April 2007.

## **AUDIT COMMITTEE**

The audit committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31st December, 2006.

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the preliminary announcement of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31st December, 2006 have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte on the preliminary announcement.

By Order of the Board  
**The Hong Kong Building and Loan Agency Limited**  
**Akihiro Nagahara**  
*Chairman*

Hong Kong, 23rd March, 2007

*As at the date of this announcement, the Directors comprise Messrs. Akihiro Nagahara (Chairman), Stephen Lo Kam Fai (Chief Executive) and Poon Mo Yiu being the Executive Directors and Messrs. Chan Bo Ching, Li Chak Hung and Yuen Wai Ho being the Independent Non-Executive Directors.*