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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 30 JUNE 2013

The board of directors (the “**Board**” or “**Directors**”) of The Hong Kong Building and Loan Agency Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2013 with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	<i>Notes</i>	Six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	4	24,877	20,228
Interest income		24,877	20,228
Interest expense	6	(2,532)	–
Net interest income		22,345	20,228
Fair value changes on financial assets			
at fair value through profit or loss		(14,772)	(3,374)
Gain on disposal of financial assets			
at fair value through profit or loss		3,764	3,289
Other income		2	1
Operating expenses		(9,511)	(49,395)
Finance costs	6	(266)	(3)

		Six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) before tax		1,562	(29,254)
Income tax expense	5	<u>(938)</u>	<u>(1,028)</u>
Profit/(loss) for the period		<u>624</u>	<u>(30,282)</u>
Other comprehensive (expense)/income Items that may be subsequently reclassified to profit or loss:			
Fair value changes on available-for-sale investments		<u>(1,449)</u>	<u>3,200</u>
Total comprehensive expense for the period		<u>(825)</u>	<u>(27,082)</u>
Profit/(loss) for the period attributable to the owners of the Company		<u>624</u>	<u>(30,282)</u>
Total comprehensive expense attributable to the owners of the Company		<u>(825)</u>	<u>(27,082)</u>
		<i>HK cents</i>	<i>HK cents</i> (Restated)
Earnings/(loss) per share	8		
Basic		<u>0.14</u>	<u>(7.00)</u>
Diluted		<u>0.12</u>	<u>(7.00)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013

		At 30 June 2013 (Unaudited) HK\$'000	At 31 December 2012 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Equipment		32	51
Mortgage loans	9	7,037	7,419
Loan receivables	10	64,765	40,500
Available-for-sale investments	11	1,708	3,157
		<u>73,542</u>	<u>51,127</u>
CURRENT ASSETS			
Mortgage loans	9	23,740	25,662
Financial assets at fair value through profit or loss	12	70,110	13,981
Loan receivables	10	219,392	280,992
Prepayments, deposits and other receivables	13	79,724	72,148
Tax recoverable		–	903
Bank balances		4,953	8,347
		<u>397,919</u>	<u>402,033</u>
CURRENT LIABILITIES			
Other payables and accruals	14	14,113	17,722
Tax payable		35	–
Borrowings	15	7,700	5,000
		<u>21,848</u>	<u>22,722</u>
NET CURRENT ASSETS		<u>376,071</u>	379,311
NON-CURRENT LIABILITY			
Non-convertible bonds	16	50,000	30,000
NET ASSETS		<u>399,613</u>	<u>400,438</u>
CAPITAL AND RESERVES			
Share capital	17	43,515	43,515
Reserves		356,098	356,923
		<u>399,613</u>	<u>400,438</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. BASIS OF PREPARATION

The condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with the Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial information for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards (“HKFRSs”) and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. HKFRSs comprise Hong Kong Financial Reporting Standards; HKASs and Interpretations. Of these, the following developments are relevant to the Group’s financial statements:

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKFRS 13	Fair value measurement

The Group has not applied any new standard, interpretation and amendments to HKFRSs that is not yet effective for the current accounting period.

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group’s presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group’s assets and liabilities.

3. SEGMENT INFORMATION

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

	Six months ended 30 June 2013		
	Loan financing HK\$'000	Treasury investments HK\$'000	Total HK\$'000
Revenue	<u>24,877</u>	<u>–</u>	<u>24,877</u>
Segment profit/(loss)	<u>17,883</u>	<u>(11,339)</u>	<u>6,544</u>
Central administration costs			<u>(4,982)</u>
Profit before tax			<u>1,562</u>
	Six months ended 30 June 2012		
	Loan financing HK\$'000	Treasury investments HK\$'000	Total HK\$'000
Revenue	<u>20,222</u>	<u>6</u>	<u>20,228</u>
Segment loss	<u>(22,191)</u>	<u>(114)</u>	<u>(22,305)</u>
Central administration costs			<u>(6,949)</u>
Loss before tax			<u>(29,254)</u>

During the current and prior periods, there were no inter-segment transactions.

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of central administration costs such as directors' remuneration, staff salaries, operating lease rental and legal and professional fees. This is the measure reported to the Board for the purposes of resource allocation and performance assessment.

4. REVENUE

Revenue represents interest income on loan financing and interest income from treasury investments.

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

	Six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan financing:		
Interest on mortgage loans	1,668	1,604
Interest on loan receivables	23,209	18,618
Treasury investments:		
Interest on bank deposits	—	6
	<u>24,877</u>	<u>20,228</u>

5. TAXATION

	Six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong		
– Current tax	938	1,028
Income tax expense for the period	<u>938</u>	<u>1,028</u>

Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for both periods.

6. PROFIT/(LOSS) FOR THE PERIOD

Profit/(loss) for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest expenses on non-convertible bonds	<u>2,532</u>	<u>–</u>
Finance costs		
Interest expenses on borrowing	248	–
Interest expenses on securities trading accounts	<u>18</u>	<u>3</u>
	<u>266</u>	<u>3</u>
(b) Other items:		
Depreciation	19	52
Reversal of impairment loss in respect of interest receivables	(70)	–
Impairment allowance on mortgage loans charged	–	4
Impairment loss recognised in respect of loan receivables	–	35,000
Impairment loss recognised in respect of interest receivables	<u>–</u>	<u>2,763</u>

7. DIVIDEND

No dividend was paid or declared during the six months ended 30 June 2013, nor has any dividend been declared since the end of reporting date (2012: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the equity shareholders of the Company is based on the following data:

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Profit/(loss) for the period attributable to equity shareholders of the Company	<u>624</u>	<u>(30,282)</u>

	Six months ended 30 June	
	2013	2012
	Shares '000	<i>Shares '000</i>
		(Restated)
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	<u>435,149</u>	<u>435,149</u>
Effect of dilutive potential ordinary shares:		
Options to subscribe convertible bonds	<u>83,597</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	<u>518,746</u>	<u>435,149</u>

The computation of diluted loss per share for the period ended 30 June 2012 does not assume the exercise or conversion of the Company's outstanding option for convertible bonds, convertible bonds and warrants since their assumed exercise or conversion would result in a decrease in the loss per share.

9. MORTGAGE LOANS

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Fixed-rate loans receivable	30,777	32,679
Variable-rate loans receivable	<u>–</u>	<u>402</u>
	<u>30,777</u>	<u>33,081</u>
Carrying amount analysed for reporting purposes:		
– Current assets (receivable within 12 months from the reporting date)	23,740	25,662
– Non-current assets (receivable after 12 months from the reporting date)	<u>7,037</u>	<u>7,419</u>
	<u>30,777</u>	<u>33,081</u>

Fixed-rate loans receivable and variable-rate loans receivable are secured by pledge of properties and bear interest at market interest rates.

No impairment on these mortgage loans has been recognised at 30 June 2013 (31 December 2012: NIL).

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

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Repayable:		
Within 3 months	7,530	645
Between 3 months and 1 year	16,210	25,017
Between 1 and 5 years	7,037	7,419
	<u>30,777</u>	<u>33,081</u>

10. LOAN RECEIVABLES

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Fixed-rate loan receivables	84,445	121,780
Variable-rate loan receivables	200,712	200,712
	<u>285,157</u>	<u>322,492</u>
<i>Less: impairment allowance on fixed-rate loan receivables</i>	<u>(1,000)</u>	<u>(1,000)</u>
	<u>284,157</u>	<u>321,492</u>
Carrying amount analysed for reporting purposes		
– Current assets (receivable within 12 months from the reporting date)	219,392	280,992
– Non-current assets (receivable after 12 months from the reporting date)	64,765	40,500
	<u>284,157</u>	<u>321,492</u>

- (i) The loan receivables outstanding at 30 June 2013 and 31 December 2012 are denominated in Hong Kong dollars.
- (ii) At 31 December 2012, a loan receivable amounting to HK\$60,000,000, carried fixed interest rate at 9% per annum and was secured by a convertible bond issued by a listed entity in Hong Kong. The loan was expired on 1 August 2012 and The Building and Loan Agency (Asia) Limited (“The BLA (Asia)”), a wholly owned subsidiary of the Company, as the lender filed a writ in the High Court of Hong Kong on 27 September 2012 against the borrower for default on full repayment of the loan in the principal amount of approximately HK\$60,000,000 together with interest accrued thereon (collectively, the “Writ”). The loan was fully repaid through the realisation of the secured convertible bond during the period.
- (iii) A loan receivable amounting to approximately HK\$200,712,000 (31 December 2012: HK\$200,712,000) is secured by a floating charge on the entire assets (mainly included a residential property located in Hong Kong) of the guarantor. The loan bore variable interest rate based on the best lending rate offered by the Hong Kong and Shanghai Banking Corporation Limited.

The loan borrower and/or the guarantor failed to repay all or part of the Loan upon demand in the year of 2011, the floating charge crystallised and converted into a fixed charge (the “Charge”) over the whole of the borrower’s and/or the guarantor’s property, undertaking, rights, income and assets, including, but not limited to the residential property (the “Charged Property”) located in Hong Kong which is owned by the guarantor and which was registered in the Land Registry on 29 February 2012. On 14 March 2012, The BLA (Asia) (the “Lender”) filed a winding-up petition in the High Court of Hong Kong against the guarantor for default on full repayment of the Loan in the principal amount of approximately HK\$200,712,000 together with interest accrued thereon (collectively, the “Petition”). On 9 July 2012, the Petition was subsequently dismissed upon the application of The BLA (Asia). The Directors are of the opinion that the Group will enter a receivership on the Charged Property in order to recover the Loan (the “Proposed Receivership”).

Taking into account of the legal letter dated 21 February 2013 issued by an independent professional solicitor, which stated that the Charge will have probably priority over any other charge registered with the Land Registry after 24 February 2012, the date of a signed certificate deemed the Charge to be effective. Therefore, a charge created but not yet registered with Land Registry by another creditor of the guarantor, Fameway Finance Limited (“Fameway”), on 9 September 2010 over the Charged Property probably ranks below the Charge. On 1 March 2013, The BLA (Asia) assigned its rights under the loan agreement dated 26 January 2011 and the Charge to Revelry Gains Limited.

According to the valuation report dated 13 March 2013 (the “Valuation Report”) issued by an independent professional valuer, Malcolm & Associates Appraisal Limited, the fair value of the Charged Property as at 31 December 2012 is HK\$430,000,000. With regard to the Proposed Receivership, the fair value of the Charged Property would be discounted to a range of HK\$360,000,000 forced sale value as stated in the Valuation Report. As at 30 June 2013, the Directors are of the opinion that the fair value of the Charged Property exceeded the carrying values of the principal amount of the Loan. Accordingly, no impairment allowance is considered necessary.

- (iv) A loan receivable amounting to HK\$2,000,000 (31 December 2012: HK\$2,000,000) carries fixed interest rate of 8% and is secured by certain ordinary shares of a company incorporated in Hong Kong, which is also the security of a loan borrowed by existing borrower amounting to HK\$2,680,000 with interest at 10% per annum.
- (v) A loan receivable amounting to HK\$10,000,000 (31 December 2012: HK\$10,000,000) is secured by a bond issued by a listed entity in Hong Kong and carries fixed interest rate of 12.25% per annum in first and second years and 6% per annum for the remaining period. The principal would be repayable on 5 December 2019.
- (vi) The loan receivables amounting to HK\$50,000,000 (31 December 2012: HK\$30,000,000) are secured by corporate guarantees provided by companies incorporated in the People’s Republic of China (the “PRC”) and carries fixed interest rate of 20.5% per annum in first year and 8% per annum for the remaining period. The principals of the loan receivables of HK\$10,000,000, HK\$10,000,000, HK\$10,000,000, HK\$10,000,000 and HK\$10,000,000 would be repayable on 9 Feb 2020, 16 Mar 2020, 12 May 2020, 17 May 2020 and 4 June 2020 respectively.
- (vii) A loan receivable amounting to HK\$8,700,000 (31 December 2012: HK\$10,000,000) is secured by a corporate guarantee issued by a listed entity in Hong Kong and carries interest at the rate of 9% per annum.
- (viii) A loan receivable amounting to HK\$3,000,000 (31 December 2012: Nil) is secured by a corporate guarantee issued by a listed entity in Hong Kong and carries interest at the rate of 10% per annum.

As at 30 June 2013, the remaining loan receivables approximately amounting to HK\$8,100,000 (31 December 2012: HK\$6,000,000) are unsecured and carry fixed interest rates at a range from 9% to 20% (2012: 9% to 20%) per annum.

The maturity profile of these loans receivable at the reporting date, analysed by the remaining periods to their contracted maturity, is as follows.

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Overdue	202,712	262,712
Between 3 months and 1 year	16,680	18,280
Between 1 and 5 years	4,765	500
Over 5 years	60,000	40,000
	<u>284,157</u>	<u>321,492</u>

Included in the carrying amount of the fixed-rate loan receivables of HK\$6,300,000 as at 30 June 2013 (31 December 2012: HK\$5,600,000) is unsecured loan borrowed by a listed entity in Hong Kong.

Movement in the accumulated impairment allowance on loan receivables:

	<i>HK\$'000</i>
Impairment allowance movement	
At 1 January 2012	1,000
Charge during the year 2012	1,000
Reverse during the year 2012	<u>(1,000)</u>
At 31 December 2012 and 30 June 2013	<u><u>1,000</u></u>

Included in the above impairment loss recognised at 30 June 2013 was individually impaired loan receivable with a carrying amount of approximately HK\$1,165,000 (31 December 2012: HK\$1,000,000) before impairment.

The fair value of the Group's loan receivables, determined based on the present value of the estimated future cash flows discounted using the applicable interest rate at the end of reporting period, approximates the carrying amount of the loan receivables.

11. AVAILABLE-FOR-SALE INVESTMENTS

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Equity securities listed in Hong Kong	<u>1,449</u>	<u>2,898</u>
Unlisted equity securities, at cost	500	500
Less: impairment recognised during the period	<u>(241)</u>	<u>(241)</u>
Equity securities in Hong Kong, net	<u>259</u>	<u>259</u>
	<u>1,708</u>	<u>3,157</u>

The equity securities listed in Hong Kong represent the fair value of an equity investment in 1.41% (31 December 2012: 1.41%) of total outstanding issued shares of a listed entity at the end of the reporting period. The fair value as at 30 June 2013 amounting to approximately HK\$1,449,000 was determined based on the quoted market bid prices available on the Stock Exchange.

The unlisted investments represent investments in unlisted equity securities in 5% of the total outstanding issued shares of a company incorporated in Hong Kong at the end of the reporting period. They are measured at cost less identified impairment losses at the end of the reporting period because their fair values cannot be measured reliably.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Held-for-trading investments:		
Equity securities listed in Hong Kong	<u>70,110</u>	<u>13,981</u>

At 30 June 2013 and 31 December 2012, the fair value of the listed equity securities was determined based on the quoted market bid prices available on the Stock Exchange.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Interest receivable	78,578	68,240
Prepayments	535	640
Receivables from securities brokers	261	29
Receivable from disposal of a subsidiary	9,200	9,200
Others	350	3,309
	<u>88,924</u>	<u>81,418</u>
<i>Less: Impairment allowance</i>	<u>(9,200)</u>	<u>(9,270)</u>
	<u><u>79,724</u></u>	<u><u>72,148</u></u>

As at 30 June 2013 and 31 December 2012, the receivable from disposal of a subsidiary amounting to HK\$9,200,000 was overdue and an impairment allowance of HK\$9,200,000 was provided.

The movement in the accumulated impairment allowance on interest receivables and other receivables is as follows:

	Impairment allowance on interest receivables <i>HK\$'000</i>	Impairment allowance on other receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
Impairment allowance movement			
At 1 January 2012	2,248	9,200	11,448
Charge during the year 2012	70	–	70
Reverse during the year 2012	<u>(2,248)</u>	<u>–</u>	<u>(2,248)</u>
At 31 December 2012	70	9,200	9,270
Reverse during the period	<u>(70)</u>	<u>–</u>	<u>(70)</u>
At 30 June 2013	<u><u>–</u></u>	<u><u>9,200</u></u>	<u><u>9,200</u></u>

14. OTHER PAYABLES AND ACCRUALS

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Accrued service fees for acquisition of a subsidiary	5,870	5,870
Accrued expenses	3,685	4,656
Receipt in advance	620	3,615
Interest payables	3,257	478
Other payables	681	3,103
	<u>14,113</u>	<u>17,722</u>

15. BORROWINGS

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Borrowings due within one year	<u>7,700</u>	<u>5,000</u>

A borrowing amounting to HK\$5,000,000 (31 December 2012: HK\$5,000,000) is an interest-bearing loan at 10% per annum, unsecured and repayable in full on 1 August 2013. The loan of HK\$5,000,000 has been extended one year further on the maturity date. Borrowings amounting to HK\$2,700,000 (31 December 2012: Nil) is an interest-bearing at 10% secured by shares issued by a listed entity in Hong Kong and repayable in full on 27 June 2015.

16. NON-CONVERTIBLE BONDS

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Bond payables	<u>50,000</u>	<u>30,000</u>

During the period ended 30 June 2013, the Company issued non-convertible bonds with a principal amount of HK\$50,000,000 to five bond holders (31 December 2012: HK\$30,000,000 to three bond holders). The principal terms of the non-convertible bonds are as follows:

Principal amount of each bond	HK\$10,000,000
Interest rate	8% per annum, payable annually in arrears
Maturity	90 months
Redemption	The Company may redeem all or some of the non-convertible bonds from issue date to maturity date, at 100% of their principal amount

17. SHARE CAPITAL

	Number of shares	<i>HK\$'000</i>
Ordinary shares of par value HK\$0.1 each		
<i>Authorised:</i>		
As at 1 January 2012	30,000,000,000	3,000,000
Share consolidation (<i>note a</i>)	<u>(27,000,000,000)</u>	<u>(2,700,000)</u>
As at 1 January and 30 June 2013	<u>3,000,000,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>		
As at 1 January 2012	4,351,488,667	435,149
Share consolidation (<i>note a</i>)	<u>(3,916,339,801)</u>	<u>(391,634)</u>
As at 1 January and 30 June 2013	<u>435,148,866</u>	<u>43,515</u>

Note:

- (a) Pursuant to an extraordinary general meeting of the Company held on 21 June 2012, the shareholders of the Company approved the cancellation of HK\$0.09 of the paid up capital on each issued share of HK\$0.10, the reduction of the par value of all the issued and unissued shares from HK\$0.10 to HK\$0.01 each (the "Reduced Shares") (the "Capital Reduction") and the consolidation of every 10 Reduced Shares into 1 ordinary share of HK\$0.10 each (the "Capital Reorganisation"). On 17 December 2012, the Court of First Instance of the High Court of Hong Kong granted an order to confirm the Capital Reorganisation with effect on 19 December 2012. The credit arising from the Capital Reduction would be utilised to set off the accumulated losses of the Company and any excessive balance would be credited to the share capital reserve. Details of the Capital Reduction are set out in a circular of the Company dated 29 May 2012, announcements dated 21 June 2012 and 18 December 2012 respectively.

18. OPTIONS TO SUBSCRIBE FOR CONVERTIBLE BONDS

On 8 October 2012, the Company issued 100 options at the premium of HK\$7,830 each to the subscribers conferring the rights to the holders of the options thereof to subscribe for convertible bonds of the Company in the principal amount of HK\$156,600 each at any time during the period from 8 October 2012 to 31 July 2014.

The fair value of options to subscribe convertible bonds issued on 8 October 2012 is approximately HK\$13,947,000 as at 31 December 2012. The fair value of the convertible bond options is determined by an independent professional valuer, Messrs. Roma Appraisals Limited.

The fair value of the convertible bond options on date of issuance are determined by using the Binomial Model with the following key attributes:

Volatility	88.12%
Share price of the Company	HK\$0.21 (<i>Note</i>)
Expected life	1.81 year
Dividend yield	0%
Risk free rate	0.25%

Note: The share price of the Company was adjusted for the impact of the Capital Reorganisation.

The principal terms of the convertible bonds are as follows:

Principal amount of each bond	HK\$156,600
Coupon rate	10% per annum, payable annually in arrears
Conversion price	Before Capital Reorganisation, the conversion price is the higher of HK\$0.018 or the par value of the shares of the Company; after Capital Reorganisation, the conversion price is the higher of HK\$0.18 or the par value of the shares of the Company

During the period and up to the maturity date, the convertible bond holders shall be able to convert in their entirety or any part of the outstanding principal amount of the convertible bonds. The Company may, on the maturity date, at its absolute discretion, redeem all convertible bonds which have not been redeemed or converted by maturity date at 100% of their principal amount or convert into the shares. The convertible bonds are denominated in Hong Kong dollars and will mature on 31 December 2015. The Directors consider the convertible bonds as equity instruments of the Company based on the substance of the contractual terms and the definition of a financial liability and an equity instrument.

During the period under review, no option was exercised by the convertible bond option holders and no convertible bond was issued by the Company.

19. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2013 <i>HK\$'000</i>	At 31 December 2012 <i>HK\$'000</i>
Within one year	<u>173</u>	<u>861</u>
	<u>173</u>	<u>861</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in investment holding, treasury investments and the provision of loan financing.

During the six months ended 30 June 2013, the Group recorded an unaudited revenue of approximately HK\$24.9 million, representing an increase of 23.0% as compared with approximately HK\$20.2 million for the last corresponding period. An unaudited profit attributable to the owners of the Company of approximately HK\$624,000 (2012: loss of approximately HK\$30.3 million) was recorded. Such decrease in loss was mainly attributable to the decrease of impairment loss recognised in respect of loan receivables and interest receivables during the six months ended 30 June 2013.

The total revenue of approximately HK\$24.9 million (2012: approximately HK\$20.2 million) was generated from the Group's loan financing business, which contributed a segment profit of approximately HK\$17.9 million (2012: loss of approximately HK\$22.2 million). Such decrease in loss was mainly attributable to the decrease of impairment loss recognised in respect of loan receivables and interest receivables during the six months ended 30 June 2013. As at 30 June 2013, the Group held mortgage loans and loan receivables amounted to approximately HK\$30.8 million (31 December 2012: approximately HK\$33.1 million) and approximately HK\$284.2 million (31 December 2012: approximately HK\$321.5 million), respectively.

With respect to the treasury investments, a segment loss of approximately HK\$11.3 million was recorded for the period under review, as compared with loss of approximately HK\$114,000 for the last corresponding period. As at 30 June 2013, the Group held available-for-sale investments and financial assets at fair value through profit or loss amounted to approximately HK\$1.7 million and HK\$70.1 million (31 December 2012: approximately HK\$3.2 million and HK\$14.0 million), respectively. Such increase in loss was mainly attributable to the fair value decreased significantly in one of the listed equity securities on financial assets at fair value through profit or loss during the six months ended 30 June 2013.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group's bank balances amounted to approximately HK\$5.0 million (31 December 2012: approximately HK\$8.3 million) and had approximately HK\$7.7 million borrowings (31 December 2012: approximately HK\$5.0 million) and approximately HK\$50.0 million non-convertible bonds (31 December 2012: approximately HK\$30.0 million). The net assets and the net current assets of the Group amounted to approximately HK\$399.6 million (31 December 2012: approximately HK\$400.4 million) and HK\$376.1 million (31 December 2012: approximately HK\$379.3 million), respectively.

Gearing ratio of the Group as at 30 June 2013, which was calculated as net debts (as calculated by total borrowings less bank balances) divided by total equity, was 0.13 (31 December 2012: 0.07).

CAPITAL STRUCTURE

As at 30 June 2013, the Company's issued ordinary share capital was HK\$43,514,886.6 divided into 435,148,866 shares of HK\$0.1 each ("**Share(s)**") (31 December 2012: HK\$43,514,886.6 divided into 435,148,866 Shares).

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2013, Certain Assets with fair value of approximately HK\$3.5 million through investment in a Listed entity in Hong Kong was pledged to a lender to secure a HK\$2.7 million borrowing granted to the Group during the six months ended 30 June 2013. No repayment have been made during the period.

FOREIGN CURRENCY EXPOSURE

During the period under review, all assets of the Group are denominated in Hong Kong dollars except for some bank balances. As such, the Group's exposure to foreign exchange currency rate risk is insignificant.

MATERIAL ACQUISITIONS AND INVESTMENTS

During the six months ended 30 June 2013, the Group did not have any significant investments, acquisitions or disposal of subsidiaries.

The Group will continue to look for acquisition or investment opportunities to generate better returns for shareholders of the Company.

FUND RAISING ACTIVITIES

On 24 July 2012, the Company and the Placing Agent entered into a placing agreement with respect of placing up to 100 options at a premium of HK\$7,830 per option to not less than six independent placees (the “**Placing Agreement**”). Each optionholder was entitled to subscribe for the convertible bonds in the principal amount of HK\$156,600 at the subscription price of HK\$156,600. Assuming exercise of all of the 100 options, the optionholders are entitled to subscribe for, in aggregate, the convertible bonds in the principal amount of HK\$15,660,000.

On 8 October 2012, the conditions of the Placing Agreement had been fulfilled and the net proceeds were approximately HK\$653,000 with net placing price of HK\$6,530 per option.

For further details, please refer to the Company’s announcements dated 19 April 2012, 24 July 2012 and 8 October 2012 respectively, and the Company’s circular dated 28 May 2012. As at the date of this announcement, no options have been exercised yet.

On 26 February 2013, 15 March 2013 and 22 August 2013, the Company entered into another placing agreement, a supplemental agreement and a second supplemental placing agreement respectively with FT Securities Limited (the “**Placing Agent**”) pursuant to which the Placing Agent has conditionally agreed to procure the placees to subscribe for no more than 5 tranches (in which the principal amount of the convertible bonds placed in each tranche shall be HK\$1,350,000 or any multiple thereof) of the convertible bonds of up to an aggregate principal amount of HK\$60,750,000 on a best-effort basis. The conversion shares will be allotted and issued under the specific mandate to be sought from shareholders of the Company at an extraordinary general meeting to allot and issue up to a maximum of 450,000,000 conversion shares. If shareholders’ approval could not be obtained, the Company would consider cash settlement for the excess conversion shares. For further details, please refer to the Company’s announcements dated 1 March 2013, 15 March 2013 and 22 August 2013.

STAFF AND REMUNERATION

As at 30 June 2013, the Group had 14 (2012: 14) employees and total staff costs incurred during the period under review amounted to approximately HK\$2.69 million (2012: approximately HK\$2.02 million). The Group offers competitive remuneration packages to its employees.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).

LITIGATION

There was no litigation, arbitration or claim of material importance in which the Group is engaged or pending or which was threatened against the Group so far as known to the Board.

OUTLOOK AND PROSPECT

The loan financing business, which are mainly mortgage services, continues to generate interest income for the Group for the six months ended 30 June 2013. In the view that the interest rate will continue to increase, the Group is optimistic that the loan financing business will generate higher income. While developing its strategy in treasury investment, which may consist of listed securities, treasury products and derivatives investment, the Group would continue exploring and broadening the existing businesses in order to strengthen its competitiveness and provide business growth potential. The Group is also looking for other investment opportunities to diversify its business portfolios. On the whole, the Group is devoted to improve its business performance in order to provide a reasonable return to its shareholders in view of the promising market outlook.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2013.

CORPORATE GOVERNANCE

During the period under review, the Company applied the principles of and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), except for the following deviations:

CG Code A.2.1 provides that the roles of chairman (the "**Chairman**") and chief executive ("**CE**") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CE should be clearly established and set out in writing. During the period under review, the Company did not appoint a Chairman or CE. The functions of the Chairman and CE are performed by the Directors. The Board will review the current practice from time to time and make appropriate changes if necessary.

CG Code A.6.7 provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive Directors were unable to attend the annual general meeting of the Company held on 21 June 2013 due to other important business engagement.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2013. The Audit Committee has approved the unaudited interim financial statements.

By order of the Board
The Hong Kong Building and Loan Agency Limited
So Yuen Chun
Executive Director

Hong Kong, 29 August 2013

As at the date of this announcement, the Board comprises Mr. So Yuen Chun and Mr. Yeung Kwok Leung being executive Directors; Mr. Lam Kwok Hing, Wilfred being non-executive Director; and Mr. Yeung Wai Hung, Peter, Mr. Lam Raymond Shiu Cheung and Ms. Yuen Wai Man being independent non-executive Directors.