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, 2005

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, 2005.

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December, 2005

	Notes	**2005** *HK$'000*	2004 *HK$'000*
Revenue	3	**73,559**	189,682
Interest income		**4,289**	1,618
Net realised gain on disposal of investments held-for-trading		**1,067**	–
Net realised gain on disposal of other investments in securities		–	13,431
Unrealised gain on investments held-for-trading		**2,159**	–
Unrealised loss on other investments in securities		–	(622)
Other investment income		**937**	1,207
Other income		**201**	91
Administrative expenses		**(2,459)**	(2,938)
Other operating expenses		**(2,170)**	(2,210)
Net exchange (losses) gains		**(2,789)**	2,194
Impairment loss on investment securities		–	(3,600)
Profit before taxation	5	**1,235**	9,171
Taxation	6	–	(886)
Profit for the year		**1,235**	8,285
Attributable to:			
Equity holders of the Company		**1,235**	8,285
		HK cents	*HK cents*
Earnings per share	7		
Basic		**0.5**	3.7
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
As at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Plant and equipment		**10**	52
Mortgage loans	8	**723**	1,764
Investment securities	9	**–**	–
Deferred tax asset		**3,396**	3,396
		4,129	5,212
CURRENT ASSETS			
Mortgage loans	8	**4,457**	1,288
Investments held-for-trading	10	**41,495**	–
Other investments in securities		**–**	45,334
Prepayments, deposits and other receivables		**423**	741
Cash and bank balances		**170,940**	168,144
		217,315	215,507
CURRENT LIABILITIES			
Other creditors and accruals	11	**834**	1,344
NET CURRENT ASSETS		**216,481**	214,163
		220,610	219,375
CAPITAL AND RESERVE			
Share capital		**225,000**	225,000
Reserve		**(4,390)**	(5,625)
		220,610	219,375

Notes:

1. **Basis of preparation**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. **Application of HKFRSs**

In the current year, the Group and the Company have applied, for the first time, a number of new HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The application of the new HKFRSs has resulted in changes to the Group's and the Company's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Financial instruments

In the current year, the Group and the Company have applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the application of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group and the Company have applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24

Until 31st December, 2004, the Group and the Company classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities were classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" were carried at cost less impairment losses (if any) while "other investments" were measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments were carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group and the Company have classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Following the application of HKAS 39, the Group has reclassified all investment securities which are previously grouped under "investment securities" to "available-for-sale financial assets" on 1st January, 2005. There is no effect on remeasurement as the investments have been fully impaired as at 31st December, 2004. The Group and the Company have also reclassified its investments in listed and unlisted securities of HK$45,334,000 which are held for trading purpose and are previously grouped under "other investments in securities" to "investments held-for-trading" on 1st January, 2005. There is no material effect on remeasurement as the accounting policy on measurement of the Group's and the Company's other investments in securities as at 31st December, 2004 is the same as that for investments held-for-trading.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group and the Company have classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

Bad and doubtful debts

In previous years, allowance for bad and doubtful debts was made having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's and the Company's portfolio of loans and advances. In determining the level of allowance required, management considers numerous factors including but not limited to, domestic and international economic conditions, the composition of loan portfolio and prior loan loss experience.

On application of HKAS 39, impairment allowances for advances assessed individually are calculated using a discounted cash flow analysis at original effective interest rate. Collective assessment of impairment for individual insignificant items or items where no impairment has been identified on an individual basis is made using formula based approaches and statistical methods. Impairment allowances for advances will be presented as individually assessed and collectively assessed instead of specific and general allowances. There will be no significant change in the net charge for allowances to the income statement.

Effect of the changes in accounting policies

The above changes to the Group's and the Company's accounting policies as a result of the new HKFRSs have had no material effect on the Group's and the Company's financial results for the year.

3. Revenue

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

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

	2005	2004
	HK$'000	*HK$'000*
Mortgage finance:		
Interest on mortgage loans	**205**	482
Treasury investments:		
Interest on bank deposits	**4,084**	1,136
Sales proceeds of investments held-for-trading	**68,333**	–
Sales proceeds of other investments in securities	**–**	186,857
Other investment income	**937**	1,207
	73,559	189,682

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 securities trading, interest income on bank deposits and dividend income.

Segment information about these businesses is presented below:

	2005			
	Mortgage finance *HK$'000*	**Treasury investments** *HK$'000*	**Corporate and other operations** *HK$'000*	**Total** *HK$'000*
Revenue	**205**	**73,354**	**–**	**73,559**
Other income	**128**	**73**	**–**	**201**
	333	**73,427**	**–**	**73,760**
Segment result/profit before taxation	**299**	**5,482**	**(4,546)**	**1,235**
Taxation				**–**
Profit for the year				**1,235**
Segment assets	**5,207**	**212,652**	**3,585**	**221,444**
Segment liabilities	**364**	**–**	**470**	**834**
Other information:				
Capital additions	**–**	**–**	**(12)**	**(12)**
Depreciation	**–**	**–**	**(16)**	**(16)**
Impairment allowances for mortgage loans	**(34)**	**–**	**–**	**(34)**
Loss on disposal of plant and equipment	**–**	**–**	**(38)**	**(38)**

	2004			
	Mortgage finance *HK$'000*	Treasury investments *HK$'000*	Corporate and other operations *HK$'000*	Total *HK$'000*
Revenue	482	189,200	–	189,682
Other income	91	–	–	91
	573	189,200	–	189,773
Segment result/profit before taxation	573	17,069	(8,471)	9,171
Taxation				(886)
Profit for the year				8,285
Segment assets	3,052	213,543	4,124	220,719
Segment liabilities	522	128	694	1,344
Other information:				
Capital additions	–	–	(65)	(65)
Depreciation	–	–	(16)	(16)
Written back of allowance for bad and doubtful debts for mortgage loans	27	–	–	27
Unrealised loss on other investments in securities	–	(622)	–	(622)
Impairment loss on investment securities	–	–	(3,600)	(3,600)

4. **Business and geographical segments (continued)**

Geographical segments

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the services:

	2005				
	Hong Kong *HK$'000*	**Singapore** *HK$'000*	**Japan** *HK$'000*	**Other** *HK$'000*	**Total** *HK$'000*
Revenue and other income	**29,782**	**30,788**	**13,129**	**61**	**73,760**
Segment result/profit before taxation	**4,201**	**(2,496)**	**(428)**	**(42)**	**1,235**
Taxation					**–**
Profit for the year					**1,235**
Segment assets	**221,444**	**–**	**–**	**–**	**221,444**
Other information:					
Capital additions	**(12)**	**–**	**–**	**–**	**(12)**

	2004				
	Hong Kong *HK$'000*	Singapore *HK$'000*	Japan *HK$'000*	Other *HK$'000*	Total *HK$'000*
Revenue and other income	88,132	57,584	30,994	13,063	189,773
Segment result/profit before taxation	5,327	4,885	3,611	(4,652)	9,171
Taxation					(886)
Profit for the year					8,285
Segment assets	178,143	26,080	13,100	3,396	220,719
Other information:					
Capital additions	(65)	–	–	–	(65)

5. **Profit before taxation**

Profit before taxation has been arrived at after crediting (charging):

	2005 *HK$'000*	2004 *HK$'000*
Employee benefits expense (including Directors' emoluments):		
Wages and salaries	**(1,344)**	(1,859)
Retirement benefit costs	**(28)**	(33)
	(1,372)	(1,892)
Depreciation	**(16)**	(16)
Auditors' remuneration	**(239)**	(170)
Loss on disposal of plant and equipment	**(38)**	–
Operating leases payments	**(832)**	(669)
Impairment allowances for mortgage loans	**(34)**	–
Written back of allowance for bad and doubtful debts for mortgage loans	**–**	27

6. **Taxation**

	2005 *HK$'000*	2004 *HK$'000*
Hong Kong		
Current tax	**–**	–
Deferred tax:		
Current year	**–**	886
	–	886

No 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. Tax losses carried forward amount to approximately HK$41,311,000.

Hong Kong Profits Tax is calculated at 17.5 per cent. (2004: 17.5 per cent.) of the estimated assessable profit for the year.

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$1,235,000 (2004: HK$8,285,000) and on 225,000,000 (2004: 225,000,000) ordinary shares in issue during the year.

No diluted earnings per share is presented for the years ended 31st December, 2005 and 2004 as there were no dilutive potential ordinary shares during these two years.

8. **Mortgage loans**

	2005	2004
	HK$'000	*HK$'000*
Fixed-rate loan receivable	**4,000**	–
Variable-rate loan receivables	**1,180**	3,052
	5,180	3,052
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the balance sheet date)	**4,457**	1,288
Non-current assets (receivables after 12 months from the balance sheet date)	**723**	1,764
	5,180	3,052

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

Included in the carrying amount of loan receivables as at 31st December, 2005 is accumulated impairment allowances of HK$151,000 (Allowance for bad and doubtful debts in 2004: HK$465,000).

The aged analysis of the mortgage loans, based on payment due date, and net of allowance, is as follows:

	2005	2004
	HK$'000	*HK$'000*
0-30 days	**4,483**	1,070
31-180 days	**552**	868
181-365 days	**145**	250
Over 365 days	–	864
	5,180	3,052

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, 2005 approximates to the carrying amount of the loans.

9. **Investment securities**

Investment securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investment securities were reclassified to available-for-sale financial assets (see note 2 for details).

	HK$'000
Unlisted equity securities, at cost	7,798
Impairment loss	(7,798)
	–

10. **Investments held-for-trading**

Investments held-for-trading as at 31st December, 2005 include:

	HK$'000
Equity securities listed in Hong Kong	**41,495**

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

11. **Other creditors and accruals**

	2005	2004
	HK$'000	*HK$'000*
Other creditors and accruals	**834**	1,344

Included in other creditors and accruals are other creditors of HK$583,000 (2004: HK$711,000), the aged analysis of which, based on payment due date, is as follows:

	2005	2004
	HK$'000	*HK$'000*
0-30 days	**583**	711

The carrying amount of the other creditors and accruals at 31st December, 2005 approximates to the corresponding fair value.

DIVIDEND

The Directors do not recommend the payment of a final dividend as the Company still carries accumulated losses as at 31st December, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

The Hong Kong economy continued to benefit from the implementation of the Closer Economic Partnership Arrangement between the Mainland China and Hong Kong and increases in tourists arrivals in particular from the Mainland China. The Group continued to achieve positive return on its treasury investments. For the year ended 31st December, 2005, the Group recorded a profit attributable to equity holders of the Company of HK$1.2 million (2004: HK$8.3 million) with revenue of HK$73.6 million (2004: HK$189.7 million).

Results for the year

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

The mortgage finance market remained competitive and interest margin continued to stay low as the property transaction volume was affected by the successive increases in interest rates in the market. The revenue contributed by mortgage finance dropped to HK$0.2 million (2004: HK$0.5 million) and profit contributed by mortgage finance also decreased to HK$0.3 million (2004: HK$0.6 million).

The revenue contributed by the treasury investments dropped to HK$73.4 million (2004: HK$189.2 million) as a result of decrease in securities trading activities and hence profit contributed by treasury investments also dropped to HK$5.5 million (2004: HK$17.1 million).

As Hong Kong dollars strengthened, the Group liquidated all its investments which were denominated in foreign currencies and recorded an exchange loss of HK$2.8 million during the year, as compared with an exchange gain of HK$2.2 million in 2004.

Financial position

As at 31st December, 2005, total assets increased slightly to HK$221.4 million (2004: HK$220.7 million). All assets are 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. As at the balance sheet date, the Group had listed investments amounting to HK$41.5 million (2004: HK$22.8 million) and cash and bank balances amounting to HK$170.9 million (2004: HK$168.1 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 (2004: Nil).

The net asset value of the Group as at 31st December, 2005 increased by 0.56 per cent. to HK$220.6 million (2004: HK$219.4 million) with the net asset value per share stood at HK$0.98 (2004: HK$0.98).

Staff and remuneration

The Group had 10 (2004: 16) employees as at 31st December, 2005 and total staff costs incurred during the year amounted to HK$1.4 million which was 27 per cent. lower than the HK$1.9 million recorded in 2004. The Group offers competitive remuneration packages to its employees. Currently, there is no share option scheme for employees.

Outlook

There are challenges and opportunities so far as the Hong Kong economy is concerned in 2006. We are cautiously optimistic that the improving domestic economy as a result of continuing increase in tourist arrivals and more consumption spending should enable the Group to perform well in 2006. On the other hand, we shall stay alert of the threats that persistently high level of oil prices and successive hikes in interest rates might dampen the global and domestic economic growth. The management is wary of these factors but will make best efforts to achieve its objective of delivering satisfactory results for the shareholders in 2006.

BUSINESS REVIEW AND PROSPECTS

Business review

The domestic and global economy continued to improve in 2005. The Hong Kong economy further benefited from influx of tourist arrivals from the Mainland China in particular the period from the grand opening of Hong Kong Disneyland. However, the significant rebound in property market in 2004 seemed to have cooled down in the final quarter of 2005 as a result of successive increases in market interest rate.

During the year, the Group managed to make profit on its treasury investments though at a lesser amount than that achieved in 2004. The competitive environment in mortgage finance business remained keen and difficult amid successive increases in interest rate in Hong Kong which had a dampening effect on property price and transaction volume.

In anticipation of the continuing appreciation of Renminbi, the Hong Kong dollars strengthened against all major foreign currencies in 2005 and as a result the Group recorded a HK$2.8 million in exchange loss as compared with the HK$2.2 million exchange gain in 2004.

For the year under review, the Group's revenue was HK$73.6 million and the profit attributable to the equity holders of the Company was HK$1.2 million. The Group was debt-free and maintained a strong liquidity position.

Prospects

We are cautiously optimistic that Hong Kong economy is expected to keep its growth momentum well into next year. With general expectation of approaching the end of cycle for increase in interest rate in 2006, the Group keeps on looking for investment opportunities in order to increase the return from the Group's treasury investments. As regards mortgage loan business, the Group will grasp the opportunities for expanding its mortgage loan portfolio once they arise when there is general picking up of property transactions in Hong Kong.

PURCHASE, SALE OR 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 ("CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31st December, 2005, except for certain deviations. The major areas of deviation are as follows:

1. **Code Provisions A.4.1 and A.4.2**

   Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election and code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

   The former Non-Executive Directors (other than the three former Independent Non-Executive Directors appointed with a term of two years) had no fixed term of office prior to their resignations on 12th October, 2005, but retired from office on a rotational basis in accordance with the relevant provision of the Articles of Association of the Company, save for the former Chairman of the Company, Mr. Ning Gaoning, was not subject to retirement by rotation and re-election at the Company's last annual general meeting held on 3rd June, 2005. According to the Articles of Association of the Company then in effect prior to 3rd June, 2005, one-third of the Directors for the time being (or, if their number is not 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. Further, 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.

   To comply with the code provision A.4.1, all the existing Non-Executive Directors had been appointed on 12th October, 2005 with a fixed term of office, but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. In addition, to ensure fully compliance with the code provision A.4.2, the Articles of Association of the Company 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. Furthermore, relevant amendments will be proposed for the shareholders' approval at the forthcoming annual 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.

2. **Code Provision E.1.2**

   Code provision E.1.2 stipulates, inter alia, that the chairman of the board should attend the annual general meeting.

   The former Chairman of the Company, Mr. Ning Gaoning, was unable to attend the annual general meeting of the Company held on 3rd June, 2005.

   The existing Chairman of the Company, Mr. Akihiro Nagahara, will use his best endeavours to attend all future annual general meetings of the Company.

Detailed information of the Company's compliance of the CG Code and deviations from certain code provisions of the CG Code for the financial year ended 31st December, 2005 will be set out in the Corporate Governance Report to be included in the Company's 2005 Annual Report which will be sent to the shareholders in April 2006.

PROPOSED AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

In order to ensure compliance with the relevant provisions in the CG Code as contained in Appendix 14 of the Listing Rules, it is proposed that certain amendments be made to the Company's Articles of Association. A special resolution to give effect to the proposed amendments to the Company's Articles of Association will be proposed at the forthcoming annual general meeting of the Company. Particulars of the proposed amendments will be set out in a circular to be despatched to the shareholders of the Company and in the notice of the aforementioned annual general meeting to be published in due course.

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, 2005.

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, 2005 have been agreed by the Group's auditors, 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, 24th March, 2006

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