



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)

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

THE HONG KONG BUILDING AND LOAN AGENCY LIMITED

The Directors of The Hong Kong Building and Loan Agency Limited (the “Company”) present the unaudited consolidated interim financial statements of the Company and its subsidiaries (together the “Group”) for the six months ended 30th June, 2001.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
		30th June,	
		2001	2000
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	9,111	66,586
Cost of sales		<u>(1,844)</u>	<u>—</u>
Gross profit		7,267	66,586
Other revenue		64	847
Administrative expenses		(1,373)	(3,077)
Other operating expenses		(710)	(11,292)
Unrealised holding loss on other investments in securities		(18,569)	—
Provision for expected loss from disposal of mortgage loan assets	3	<u>—</u>	<u>(44,000)</u>
Profit/(Loss) from operating activities	4	(13,321)	9,064
Finance costs		<u>—</u>	<u>(36,027)</u>
Loss before tax	2	(13,321)	(26,963)
Tax	5	<u>—</u>	<u>(2,113)</u>
Net loss from ordinary activities attributable to shareholders		<u>(13,321)</u>	<u>(29,076)</u>
		HK cents	<i>HK cents</i>
Loss per share	6		
Basic		<u>(5.9)</u>	<u>(12.9)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Note:

Other than the net loss from ordinary activities attributable to shareholders as shown above, the Group had no recognised gains and losses. Accordingly, no consolidated statement of recognised gains and losses is presented in the interim financial statements.

THE HONG KONG BUILDING AND LOAN AGENCY LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2001	Restated 31st December, 2000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
NON-CURRENT ASSETS			
Fixed assets		92	114
Mortgage loans	7	20,212	31,963
Investment securities		<u>3,120</u>	<u>3,120</u>
		<u>23,424</u>	<u>35,197</u>
CURRENT ASSETS			
Other investments in securities	8	56,010	17,776
Mortgage loans	7	6,033	6,414
Debtors, prepayments and deposits		1,377	26,761
Cash and bank balances		<u>159,160</u>	<u>218,003</u>
		<u>222,580</u>	<u>268,954</u>
TOTAL ASSETS		<u><u>246,004</u></u>	<u><u>304,151</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	9	225,000	225,000
Reserves	10	<u>16,205</u>	<u>74,526</u>
		<u>241,205</u>	<u>299,526</u>
CURRENT LIABILITIES			
Creditors and accruals		3,707	3,533
Tax payable		<u>1,092</u>	<u>1,092</u>
		<u>4,799</u>	<u>4,625</u>
TOTAL EQUITY AND LIABILITIES		<u><u>246,004</u></u>	<u><u>304,151</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June, 2001 <i>HK\$'000</i>
Net cash outflow from operating activities	(13,834)
Net cash outflow from returns on investments and servicing of finance	(45,000)
Net cash outflow from investing activities	<u>(9)</u>
Decrease in cash and cash equivalents	(58,843)
Cash and cash equivalents at 1st January, 2001	<u>218,003</u>
Cash and cash equivalents at 30th June, 2001	<u><u>159,160</u></u>
Analysis of balances of cash and cash equivalents:	
Cash and bank balances	<u><u>159,160</u></u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”) except that no comparative figures have been presented in the condensed consolidated cash flow statement as permitted under Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the first cash flow statement to be included in the interim financial statements relating to accounting periods ending on or after 1st July, 2000.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those adopted in the Group’s audited financial statements for the year ended 31st December, 2000 except the following change of accounting policy as a result of the adoption of SSAP 9 (revised) “Events after the Balance Sheet Date” issued by HKSA in January 2001.

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the proposed final and special dividends for the year ended 31st December, 2000 totalling HK\$45 million previously recorded as a current liability as at 31st December, 2000 has been restated and shown under “CAPITAL AND RESERVES”. This revised accounting treatment for dividends has resulted in a prior period adjustment, further details of which are included in Note 10 to the interim financial statements.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents interest income on mortgage loans and gross income on treasury investments which includes sales proceeds from securities trading and interest income on bank deposits. All significant intra-group transactions were eliminated.

An analysis of the Group’s turnover and contribution to loss from operating activities (after finance costs) by principal activity is as follows:

	Turnover		Contribution	
	Six months ended 30th June,		Six months ended 30th June,	
	2001	2000	2001	2000
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Mortgage finance	2,147	62,691	1,770	(28,495)
Treasury investments	6,964	3,895	(15,091)	1,532
	<u>9,111</u>	<u>66,586</u>	<u>(13,321)</u>	<u>(26,963)</u>

No geographical analysis is provided as less than 10 per cent. of the turnover and less than 10 per cent. of the operating results of the Group were contributed from operations outside Hong Kong.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

3. PROVISION FOR EXPECTED LOSS FROM DISPOSAL OF MORTGAGE LOAN ASSETS

The balance in prior period represents provision made for the expected loss arisen from the disposal of certain mortgage loan assets to The Hongkong Chinese Bank, Limited ("HKCB"), the then holding company of the Company, pursuant to an agreement dated 9th May, 2000 between HKCB and the Company, which was completed on 14th August, 2000.

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

Profit/(Loss) from operating activities is arrived at after crediting/(charging):

	Six months ended 30th June,	
	2001	2000
	HK\$'000	HK\$'000
Depreciation	(31)	(172)
Gain on disposal of other investments in securities	359	—
Unrealised holding loss on other investments in securities		
Listed	(14,582)	—
Unlisted	(3,987)	—
	<u> </u>	<u> </u>

5. TAX

No provision for Hong Kong profits tax has been made as the Group was able to utilize the tax loss brought forward from prior year to off-set the estimated assessable profits earned during the period. Hong Kong profits tax in the prior period was provided for at the rate of 16 per cent. on the estimated assessable profits arising in Hong Kong during that period.

There were no material deferred tax liabilities as at 30th June, 2001 (2000 — Nil).

6. LOSS PER SHARE

(a) *Basic loss per share*

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$13,321,000 (2000 — HK\$29,076,000); and (ii) the number of 225,000,000 shares (2000 — 225,000,000 shares) in issue during the period.

(b) *Diluted loss per share*

No diluted loss per share is presented for the periods ended 30th June, 2001 and 2000 as there were no dilutive potential ordinary shares.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

7. MORTGAGE LOANS

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Total mortgage loan balances	27,402	39,534
Less: General provision for doubtful debts	(1,157)	(1,157)
	26,245	38,377
Amounts due within one year classified as current assets	(6,033)	(6,414)
Non-current portion	20,212	31,963

8. OTHER INVESTMENTS IN SECURITIES

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Listed equity investments, at market value		
Hong Kong	13,267	17,776
Unlisted investment funds, at fair value	42,743	—
	56,010	17,776

9. SHARE CAPITAL

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
<i>Authorised:</i>		
300,000,000 shares of HK\$1.00 each	300,000	300,000
<i>Issued and fully paid:</i>		
225,000,000 shares of HK\$1.00 each	225,000	225,000

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

10. RESERVES

	Proposed dividends <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2000			
As previously stated	—	98,839	98,839
Restatement of 1999 final dividend, proposed	18,000	—	18,000
	<hr/>	<hr/>	<hr/>
As restated	18,000	98,839	116,839
1999 final dividend, declared	(18,000)	—	(18,000)
Loss for the year	—	(24,313)	(24,313)
2000 final dividend, proposed	4,500	(4,500)	—
2000 special dividend, proposed	40,500	(40,500)	—
	<hr/>	<hr/>	<hr/>
At 31st December, 2000 and 1st January, 2001	45,000	29,526	74,526
2000 final dividend, declared	(4,500)	—	(4,500)
2000 special dividend, declared	(40,500)	—	(40,500)
Loss for the period	—	(13,321)	(13,321)
	<hr/>	<hr/>	<hr/>
At 30th June, 2001	<u>—</u>	<u>16,205</u>	<u>16,205</u>

11. RELATED PARTY TRANSACTION

During the period and as at 30th June, 2001, the Group had cash balances with The Hongkong Chinese Bank, Limited ("HKCB"), a subsidiary of Lippo China Resources Limited which is the intermediate holding company of the Company, and received interests from HKCB. The Directors are of the opinion that these transactions were undertaken on terms similar to those offered to unrelated customers in the ordinary course of business of the relevant companies.

MANAGEMENT DISCUSSION AND ANALYSIS

Sluggish loan demand and the global economic slowdown resulted in fierce competition in the residential mortgage loan market during the first half of 2001. The Group has taken opportunities to utilize the funds, which are not required to support the mortgage business, in treasury investment activities.

The Group recorded a turnover of HK\$9.1 million in the first six months of 2001, decreased significantly as compared to that of last corresponding period of HK\$66.6 million due to the disposal of a significant portion of its mortgage loan portfolio in the second half of 2000. The disposal resulted in a significant drop of mortgage loan assets by HK\$945 million (net of provisions), which generated funds for the Group to repay all its outstanding bank loan and hence no finance costs (2000 — HK\$36 million) were incurred during the period. Moreover, administrative and other operating expenses dropped significantly. Loss attributable to shareholders during the period amounted to HK\$13.3 million (2000 — HK\$29.1 million), after including an unrealised holding loss on other investments in securities of HK\$18.6 million. When excluding the unrealised holding loss, the Group achieved an operating profit of HK\$5.2 million, and recorded a slight increase in return on total assets.

After the participation in a small part of the fund raising exercise of a US company engaged in development in the next generation of internet protocol last year, the Group did not make any further investment in technology sector during the period.

8

As at 30th June, 2001, other investments in securities amounted to HK\$56 million (31st December, 2000 — HK\$17.8 million) and total cash and bank balances amounted to HK\$159 million (31st December, 2000 — HK\$218 million). The Group still maintains a very strong liquidity position. Total assets reduced from HK\$304 million at the end of last year to HK\$246 million at the end of the current period, which was mainly due to the payment of final and special dividends in a total of HK\$45 million in May 2001. Assets held by the Group are mostly denominated in Hong Kong dollars. Only a small portion is denominated in United States dollars and the exposure to exchange rate risk is minimal.

Currently, the Group is debt-free and has no material capital commitment outstanding. As at 30th June, 2001, the net asset value of the Group amounted to HK\$241.2 million (31st December, 2000 — HK\$299.5 million, restated to add back the proposed final and special dividends for the year ended 31st December, 2000 totalling HK\$45 million as the Group's reserves) and the net asset value per share stood at HK\$1.07 (31st December, 2000 — HK\$1.33, restated to add back the above-mentioned proposed dividends of HK20 cents per share).

Although mortgage interest rates has reached a record low level, the mortgage loan demand is still weak. Facing the slump in the mortgage loan market but with the strong financial position, the Group has been seeking opportunities to make other investments to provide shareholders with attractive long-term returns.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2001 (2000 — Nil).

REVIEW AND PROSPECTS

Despite successive interest rate reductions, the global downturn continues to weaken the consumer confidence. Stock market is volatile and falling. Local property market remains stagnant. Weak investment sentiment and sluggish residential loan demand made the competition in the mortgage loan sector more intensive. The operating environment remained challenging in the first half of 2001. After the disposal of a significant portion of mortgage loan portfolio in the year 2000, turnover for the period decreased significantly to HK\$9.1 million as compared to that of last corresponding period. The Group achieved an operating profit of HK\$5.2 million before accounting for an unrealised holding loss on other investments in securities of HK\$18.6 million and recorded loss attributable to shareholders of HK\$13.3 million when such loss was included.

The impending recession in the US economy and sluggish property market may have negative impact on local economy. Uncertainty in global economy and the slowdown of local economy may lead to trimming in corporations and increasing unemployment rate. Due to the weak mortgage loan demand, the Group has been seeking opportunities to utilize the funds more efficiently. It is expected a recovery in economy will not occur shortly. With a strong financial position, it is believed that the Group will be able to meet the challenges and difficulties ahead. In view of recent economic situation, the Group will position its business and investments more conservatively.

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30th June, 2001, the interests of the Directors of the Company in the equity or debt securities of the Company's associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) Lippo Limited ("Lippo")

Name	Type of interest	Number of shares of HK\$0.10 each in Lippo
Jonathan Miles Foxall	Personal	18,000
Lee Jark Pui	Family	48

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(continued)*

(ii) **The HKCB Bank Holding Company Limited ("HKCB Holding")**

Name	Type of interest	Number of shares of HK\$1.00 each in HKCB Holding
Lee Jark Pui	Personal	350
	Family	350

Save as disclosed herein, as at 30th June, 2001, none of the Directors or the chief executive of the Company were beneficially interested in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which are required to be recorded in the register kept under Section 29 of the SDI Ordinance or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at 30th June, 2001, the following Directors of the Company held options as stated below:

Name	Number of shares of HK\$0.10 each in Lippo China Resources Limited in respect of which options have been granted*
Jonathan Miles Foxall	6,000,000
David T. Yeh	9,000,000

* The options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Share Option Scheme for Employees (the "LCR Scheme") adopted by Lippo China Resources Limited ("LCR"). Such options can be exercised on or before 23rd June, 2007 in accordance with the rules of the LCR Scheme to subscribe for shares in LCR at an initial exercise price of HK\$5.30 per share (subject to adjustment). Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997 and the rights issues of new shares in July 1999 on the basis of one rights share for every one share held and in November 2000 on the basis of one rights share for every two shares held, the holder of each option is entitled to subscribe for six shares of HK\$0.10 each in LCR at an exercise price of HK\$0.883 per share (subject to adjustment). No options had been exercised by any of the above Directors during the period.

Save as disclosed herein, as at 30th June, 2001, none of the Directors or the chief executive of the Company nor their spouses or children under 18 years of age was granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001, according to the register of interests kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”), and so far as is known to the Directors, the persons who were, directly or indirectly, beneficially interested in 10 per cent. or more in the issued share capital of the Company were as follows:

Name	Number of shares of HK\$1.00 each in the Company	Approximate percentage
Lanius Limited (“Lanius”)	168,746,038	75
Lippo Cayman Limited (“Lippo Cayman”)	168,746,038	75
Lippo Capital Limited (“Lippo Capital”)	168,746,038	75
Lippo Limited (“Lippo”)	168,746,038	75
First Tower Corporation (“First Tower”)	168,746,038	75
Skyscraper Realty Limited (“Skyscraper”)	168,746,038	75
Lippo China Resources Limited (“LCR”)	168,746,038	75
No. 1 Dragon Ltd. (“No. 1 Dragon”)	157,496,038	70
HKCB Corporation Limited (“HKCB Corporation”)	157,496,038	70

Notes:

- (i) By virtue of Section 8 of the SDI Ordinance:
 - (a) Lanius, Lippo Cayman, Lippo Capital, Lippo, First Tower and Skyscraper were deemed to have the same beneficial interests in the shares of the Company as LCR and LCR’s interest included the interest of No. 1 Dragon; and
 - (b) No. 1 Dragon was deemed to have the same beneficial interest in the shares of the Company as HKCB Corporation.
- (ii) As at 30th June, 2001, Lippo Cayman had, under a share mortgage, charged 49 per cent. of its interest in Lippo Capital to Ranbridge Finance Limited, a wholly-owned subsidiary of Sun Hung Kai & Co. Limited (“SHK”). AP Emerald Limited (“AP Emerald”) holds more than one-third of the issued share capital of SHK. AP Emerald is a wholly-owned subsidiary of Grace Crown Limited which in turn is a wholly-owned subsidiary of Allied Properties (H.K.) Limited (“APL”). APL is a subsidiary of Allied Group Limited.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2001, there was no purchase, sale or redemption of securities of the Company by the Company or any of its subsidiaries.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period, except that the non-executive Directors were not appointed for a specific term but 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.

REVIEW OF INTERIM REPORT

The 2001 Interim Report has been reviewed by the Company's Audit Committee which comprises two independent non-executive Directors.

By Order of the Board
The Hong Kong Building and Loan Agency Limited
David Yeh
Director