



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, 2002

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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, 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	Unaudited Six months ended 30th June,	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	39,033	9,111
Cost of sales		<u>(37,133)</u>	<u>(1,844)</u>
Gross profit		1,900	7,267
Other revenue		1,132	64
Administrative expenses		(1,766)	(1,373)
Other operating expenses		(1,407)	(710)
Net unrealised holding gain/(loss) on other investments in securities		<u>387</u>	<u>(18,569)</u>
Profit/(Loss) before tax	4	246	(13,321)
Tax	5	<u>–</u>	<u>–</u>
Net profit/(loss) from ordinary activities attributable to shareholders		<u>246</u>	<u>(13,321)</u>
		HK cents	HK cents
Earnings/(Loss) per share	6		
Basic		<u>0.11</u>	<u>(5.9)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June, 2002 HK\$'000	Audited 31st December, 2001 HK\$'000
	Note		
ASSETS			
NON-CURRENT ASSETS			
Fixed assets		74	61
Mortgage loans	7	8,719	13,146
Investment securities		7,798	–
		<u>16,591</u>	<u>13,207</u>
CURRENT ASSETS			
Held-to-maturity securities	8	23,229	22,194
Other investments in securities	9	37,776	40,950
Mortgage loans	7	5,921	7,570
Debtors, prepayments and deposits		1,820	1,893
Cash and bank balances		140,337	139,994
		<u>209,083</u>	<u>212,601</u>
TOTAL ASSETS		<u>225,674</u>	<u>225,808</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	10	225,000	225,000
Reserves	11	(2,315)	(2,590)
		<u>222,685</u>	<u>222,410</u>
CURRENT LIABILITIES			
Creditors and accruals		2,989	3,398
TOTAL EQUITY AND LIABILITIES		<u>225,674</u>	<u>225,808</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Total equity as at 1st January	222,410	299,526
Currency translation differences and net gain not recognised in the condensed consolidated profit and loss account	29	–
Net profit/(loss) from ordinary activities attributable to shareholders	246	(13,321)
Final dividend, declared	–	(4,500)
Special dividend, declared	–	(40,500)
Total equity as at 30th June	<u>222,685</u>	<u>241,205</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
		(Restated)
Net cash inflow/(outflow) from operating activities	8,234	(13,834)
Net cash outflow from investing activities	(7,891)	(9)
Net cash outflow from financing activities	<u>—</u>	<u>(45,000)</u>
Net increase/(decrease) in cash and cash equivalents	343	(58,843)
Cash and cash equivalents at 1st January	<u>139,994</u>	<u>218,003</u>
Cash and cash equivalents at 30th June	<u>140,337</u>	<u>159,160</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>140,337</u>	<u>159,160</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 (revised) “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

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, 2001 except that the Group has changed certain of its accounting policies and disclosure practices as a result of the adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised): Presentation of financial statements

SSAP 1 (revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 is that the requirement for a statement of recognised gains and losses has been replaced by a statement of changes in equity.

SSAP 11 (revised): Foreign currency translation

SSAP 11 (revised) prescribes the accounting treatment and disclosure requirement for foreign currency activities. It requires the profit and loss account of a foreign subsidiary to be translated at an average rate for the period. The Group has translated the profit and loss account of foreign subsidiaries for the period at average rates in order to comply with this SSAP. The revised SSAP has not had any significant impact on the Group’s profit and loss account for the prior periods.

SSAP 15 (revised): Cash flow statements

SSAP 15 (revised) prescribes the basis for the presentation and content of cash flow statement. Cash flows are classified into three categories, namely operating, investing and financing activities instead of five categories. Accordingly, certain comparative figures in the cash flow statement have been reclassified in order to be in conformity with the presentation of current period as set out on page 5.

SSAP 25 (revised): Interim financial reporting

SSAP 25 (revised) prescribes the minimum content of an interim financial report. As in line with the revision made in SSAP 1, condensed statement of recognised gains and losses, formerly being one of the minimum components of an interim financial report, was replaced by condensed statement of changes in equity as set out on page 4.

SSAP 33: Discontinuing operations

SSAP 33 establishes principles for reporting information about discontinuing operations. This SSAP has not had any impact on the interim financial statements.

SSAP 34: Employee benefits

SSAP 34 prescribes the accounting and disclosure for employee benefits. The new SSAP requires an enterprise to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits. This SSAP has not had any material impact on the interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

2. TURNOVER

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 and held-to-maturity securities.

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

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Mortgage finance:		
Interest on mortgage loans	966	2,147
Treasury investment:		
Interest on bank deposits	1,165	4,747
Sales of other investments in securities	35,276	2,217
Interest on held-to-maturity securities	1,626	—
	<u>39,033</u>	<u>9,111</u>

3. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary segment. No analysis of geographical segment which is regarded as the secondary segment is presented as the Group's revenue, results and assets are based in Hong Kong.

An analysis of the Group's turnover and results by business segment is as follows:

	Six months ended 30th June, 2002		
	Mortgage finance HK\$'000	Treasury investments HK\$'000	Total HK\$'000
Turnover	966	38,067	39,033
Other revenue	1,132	—	1,132
	<u>2,098</u>	<u>38,067</u>	<u>40,165</u>
Segment results	<u>1,860</u>	<u>1,213</u>	3,073
Unallocated corporate expenses			(2,827)
Profit before tax			246
Tax			—
Net profit from ordinary activities attributable to shareholders			<u>246</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

3. SEGMENT INFORMATION (continued)

	Six months ended 30th June, 2001		
	Mortgage finance HK\$'000	Treasury investments HK\$'000	Total HK\$'000
Turnover	2,147	6,964	9,111
Other revenue	64	–	64
	<u>2,211</u>	<u>6,964</u>	<u>9,175</u>
Segment results	<u>2,182</u>	<u>(13,764)</u>	(11,582)
Unallocated corporate expenses			(1,739)
Loss before tax			(13,321)
Tax			–
Net loss from ordinary activities attributable to shareholders			<u>(13,321)</u>

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

4. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Depreciation	(35)	(31)
Net realised gain/(loss) on disposal of other investments in securities:		
Listed	(267)	359
Unlisted	(1,590)	–
Net unrealised holding gain/(loss) on other investments in securities:		
Listed	(1,848)	(14,582)
Unlisted	<u>2,235</u>	<u>(3,987)</u>

5. TAX

No provision for Hong Kong profits tax has been made as the Group had applied the tax loss brought forward from prior years to off-set the estimated assessable profits earned during the current and prior periods.

There were no material deferred tax liabilities as at 30th June, 2002 (2001 – Nil).

6. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated based on (i) the net profit from ordinary activities attributable to shareholders of HK\$246,000 (2001 – net loss of HK\$13,321,000); and (ii) the number of 225,000,000 shares (2001 – 225,000,000 shares) in issue during the period.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented for the periods ended 30th June, 2002 and 2001 as there were no dilutive potential ordinary shares.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

7. MORTGAGE LOANS

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Total mortgage loan balances	15,606	21,873
Less: Provision for doubtful debts:		
General	(690)	(934)
Specific	(276)	(223)
	14,640	20,716
Amounts due within one year classified as current assets	(5,921)	(7,570)
Non-current portion	8,719	13,146

8. HELD-TO-MATURITY SECURITIES

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Unlisted debt securities, at amortised cost	23,229	22,194

Held-to-maturity securities represents a commercial paper in a principal amount of US\$3 million acquired by the Group in the market for investment purpose. The commercial paper was issued by a fellow subsidiary of the Company in 1997, carried interest at 2.75 per cent. per annum above the London Interbank Offered Rate and was due in July 2002.

9. OTHER INVESTMENTS IN SECURITIES

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Listed equity investments in Hong Kong, at market value	10,971	12,820
Unlisted investment funds, at fair value	26,805	28,130
	37,776	40,950

10. SHARE CAPITAL

	30th June, 2002 HK\$'000	31st December, 2001 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)

11. RESERVES

	Exchange equalisation reserve HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
As at 1st January, 2002	–	(2,590)	(2,590)
Exchange differences on consolidation	29	–	29
Profit for the period	–	246	246
	<u>29</u>	<u>(2,344)</u>	<u>(2,315)</u>

12. RELATED PARTY TRANSACTION

During the period, the Group paid rental expenses amounting to HK\$648,000 (2001 – HK\$540,000) to Prime Power Investment Limited, a wholly-owned subsidiary of Lippo China Resources Limited which in turn is the intermediate holding company of the Company. The rental was determined by reference to open market rentals.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

During the first half of 2002, Hong Kong's operating environment remained difficult with persistently declined consumer price index and increased unemployment rate. While the demand for loans was weak, the Group had taken opportunities to diversify its business into other investment activities. Under the tough economic conditions, the Group was able to turn its operations back to profitability and achieved a net profit of HK\$246,000 for the six months ended 30th June, 2002, against a net loss of HK\$13,321,000 for the last corresponding period.

Mortgage finance and treasury investments (which includes securities investment and other treasury activities) remained principal businesses of the Group. Total turnover for the period increased significantly to HK\$39.0 million from last period's HK\$9.1 million mainly due to increase in treasury investment activities. Following the full deregulation of interest rates in July 2001, the Group took advantage of the falling interest rates on deposits and invested in higher-yield corporate papers and other investments. This is also reflected in the drop in turnover generated from mortgage finance business during the period. Net income contribution from mortgage finance and treasury investments represents 61 per cent. and 39 per cent. of the segment results for the six months ended 30th June, 2002.

The Group's financial position remained strong over the period. As at the end of June 2002, current ratio stood at 70:1 (31st December, 2001 – 63:1) with held-to-maturity securities and other investments in securities in aggregate amounted to HK\$61.0 million (31st December, 2001 – HK\$63.1 million) and total cash and bank balances amounted to HK\$140.3 million (31st December, 2001 – HK\$140.0 million).

Total assets as at 30th June, 2002 was HK\$225.7 million (31st December, 2001 – HK\$225.8 million). Assets held by the Group were mostly denominated in Hong Kong dollars. Only a small portion was denominated in United States dollars and Japanese yen and the exposure to exchange rate risk was minimal. As at the end of June 2002, the net asset value of the Group amounted to HK\$222.7 million (31st December, 2001 – HK\$222.4 million) and the net asset value per share stood at HK\$0.99, same as that of 31st December, 2001.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial review *(continued)*

Currently, the Group is totally debt-free. There were no charges on the Group's assets and the Group had no material capital commitment or contingent liabilities outstanding as at 30th June, 2002 (31st December, 2001 – Nil).

Changes in accounting policies

Following the adoption of the new or revised accounting standards issued by the Hong Kong Society of Accountants, certain accounting policies of the Group and disclosure practices were changed with details as set out in Note 1 to the interim financial statements. There were no material impact on the profit and loss account nor the balance sheet of the Group.

Staff and remuneration

The Group had 15 employees as at 30th June, 2002. Total staff costs incurred during the period amounted to HK\$820,000 (2001 – HK\$579,000). The Group offers competitive remuneration packages to its employees where no share option scheme for employees was implemented.

Outlook

Under the grip of recession, operating profitability remains weak and revenues are still under pressure. The Group will continue to seek improvement on asset returns. In the longer term, the Group believes that it has a very healthy financial position and is in a very competitive position to actively, but prudently, explore business opportunities in the region.

REVIEW AND PROSPECTS

During the first half of 2002, high unemployment rate and a volatile stock market continued to pressurize the local economy. Amid falling property prices and a stagnant property market, residential loan demand remained sluggish and keen competition in mortgage loan sector continued. Unemployment and deflation have further weakened investment sentiment as well as consumer confidence despite the historically low level of interest rate. Uncertainty in the global economy was further aggravated by the corporate accounting issues in the United States. The operating environment was still difficult during the period under review.

In the face of a tough economic environment, the Group was able to achieve a net profit of HK\$246,000 for the period, against a net loss of HK\$13,321,000 for the last corresponding period. As a result of the low interest rates on deposits, the Group had taken opportunities to invest in higher-yield investments. Accordingly, turnover generated from mortgage finance business dropped whereas that from treasury investment activities increased. The Group's total turnover for the period increased to HK\$39,000,000. The Group is debt-free and has maintained a very strong financial position throughout the period.

Amid the deflationary environment in the local economy and global economic volatility, it is expected that the improvement of the local economy will not occur shortly. However, Hong Kong's export has recorded a stronger than expected growth recently. It is believed that export growth will continue to be the driver for economic growth. With a strong financial position, the Group is well positioned to take advantage of good investment opportunities which will provide future growth and added value to the shareholders.

ADDITIONAL INFORMATION

Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2002 (2001 – Nil).

Directors' interests in the securities of the Company and associated corporations

As at 30th June, 2002, 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:

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

Hongkong Chinese Limited ("Hongkong Chinese")

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

Save as disclosed herein, as at 30th June, 2002, 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 by the Company 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.

ADDITIONAL INFORMATION *(continued)*

Directors' interests in the securities of the Company and associated corporations
(continued)

As at 30th June, 2002, 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, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares 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). None of the options were exercised by any of the above Directors during the six months ended 30th June, 2002.

Save as disclosed herein, as at 30th June, 2002, 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, 2002, according to the register of interests kept by the Company under Section 16(1) of 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")	157,496,038	70
Lippo Cayman Limited ("Lippo Cayman")	157,496,038	70
Lippo Capital Limited ("Lippo Capital")	157,496,038	70
Lippo	157,496,038	70
First Tower Corporation ("First Tower")	157,496,038	70
Skyscraper Realty Limited ("Skyscraper")	157,496,038	70
LCR	157,496,038	70
No. 1 Dragon Ltd. ("No. 1 Dragon")	157,496,038	70
HKCB Corporation Limited ("HKCB Corporation")	157,496,038	70

ADDITIONAL INFORMATION *(continued)*

Substantial shareholders *(continued)*

Note:

By virtue of Section 8 of the SDI Ordinance, Lanius, Lippo Cayman, Lippo Capital, Lippo, First Tower, Skyscraper, LCR and No. 1 Dragon were deemed to have the same beneficial interests in the shares of the Company as HKCB Corporation.

Purchase, sale or redemption of securities

During the six months ended 30th June, 2002, 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 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 2002 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
Jonathan Miles Foxall
Director

Hong Kong, 5th September, 2002