



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, 2004

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Directors

Mr. Ning Gaoning (*Chairman*)
Mr. Wai Lam Chan

Executive Directors

Mr. David T. Yeh
Mr. Jark Pui Lee, O.B.E., J.P.
Mr. Jonathan Miles Foxall
Mr. Tai Chiu Ng

Independent non-executive Directors

Mr. Leon Nim Leung Chan
Mr. Michael Kwok Shung Chan

AUDIT COMMITTEE

Mr. Leon Nim Leung Chan
Mr. Michael Kwok Shung Chan

SECRETARY

Ms. Marisa Mun Chung Mak

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
International Bank of Asia Limited
The Hongkong and Shanghai Banking
Corporation Limited

SOLICITORS

Richards Butler

REGISTRARS

Tengis Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Room 2301, 23rd Floor
Tower One
Lippo Centre
89 Queensway
Hong Kong

STOCK CODE

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The Directors of The Hong Kong Building and Loan Agency Limited (the "Company") are pleased to present the unaudited consolidated interim financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2004.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	Six months ended 30th June,	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	177,603	35,280
Cost of sales		(167,253)	(34,528)
Gross profit		10,350	752
Other revenue		72	982
Administrative expenses		(1,624)	(1,450)
Other operating expenses		(409)	(276)
Provision for impairment in value for investment securities		(1,956)	(1,964)
Profit/(Loss) before tax	4	6,433	(1,956)
Tax	5	(467)	3,826
Net profit from ordinary activities attributable to shareholders		5,966	1,870
		HK cents	<i>HK cents</i>
Earnings per share	6		
Basic		2.65	0.83
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
ASSETS			
NON-CURRENT ASSETS			
Fixed assets		59	3
Mortgage loans	7	1,845	2,846
Investment securities		1,644	3,600
Deferred tax asset		3,815	4,282
		7,363	10,731
CURRENT ASSETS			
Other investments in securities	8	50,032	86,069
Mortgage loans	7	1,712	2,141
Debtors, prepayments and deposits		767	6,491
Cash and bank balances		158,291	107,163
		210,802	201,864
TOTAL ASSETS		218,165	212,595
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	9	225,000	225,000
Reserve	10	(7,944)	(13,910)
		217,056	211,090
CURRENT LIABILITIES			
Creditors and accruals		1,109	1,505
TOTAL EQUITY AND LIABILITIES		218,165	212,595

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30th June,	
	2004	2003
	HK\$'000	HK\$'000
Total equity as at 1st January	211,090	206,077
Net profit from ordinary activities attributable to shareholders	5,966	1,870
Total equity as at 30th June	217,056	207,947

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30th June,	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Net cash from operating activities	51,188	11,729
Net cash used in investing activities	(60)	–
Net increase in cash and cash equivalents	51,128	11,729
Cash and cash equivalents at 1st January	107,163	165,798
Cash and cash equivalents at 30th June	158,291	177,527
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	158,291	177,527

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 25 (Revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants.

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, 2003.

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.

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

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Mortgage finance:		
Interest on mortgage loans	277	569
Treasury investments:		
Interest on bank deposits	376	1,087
Sales of other investments in securities	175,971	33,238
Dividend income	311	386
Other investment income	668	-
	177,603	35,280

3. SEGMENT INFORMATION

An analysis of the Group's segment information by business segment is set out below:

	Six months ended 30th June, 2004			
	Mortgage finance HK\$'000	Treasury investments HK\$'000	Other HK\$'000	Total HK\$'000
Turnover	277	177,326	-	177,603
Other revenue	72	-	-	72
	349	177,326	-	177,675
Segment results	349	10,073	(1,956)	8,466
Unallocated corporate expenses				(2,033)
Profit before tax				6,433
Tax				(467)
Net profit from ordinary activities attributable to shareholders				5,966

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

3. SEGMENT INFORMATION (continued)

	Six months ended 30th June, 2003			
	Mortgage finance HK\$'000	Treasury investments HK\$'000	Other HK\$'000	Total HK\$'000
Turnover	569	34,711	–	35,280
Other revenue	614	368	–	982
	<u>1,183</u>	<u>35,079</u>	<u>–</u>	<u>36,262</u>
Segment results	<u>1,183</u>	<u>540</u>	<u>(1,964)</u>	<u>(241)</u>
Unallocated corporate expenses				<u>(1,715)</u>
Loss before tax				<u>(1,956)</u>
Tax				<u>3,826</u>
Net profit from ordinary activities attributable to shareholders				<u>1,870</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,	
	2004 HK\$'000	2003 HK\$'000
Depreciation	(4)	(1)
Dividend income from listed investments	311	386
Net realised gain/(loss) on other investments in securities:		
Listed	13,035	(87)
Net unrealised holding loss on other investments in securities:		
Listed	(3,333)	(1,061)
Unlisted	(204)	(142)
Other investment income:		
Listed	67	–
Unlisted	601	–
	<u>601</u>	<u>–</u>

5. TAX

No current tax provision has been made as the Group had applied the unused tax losses brought forward from prior years to off-set the estimated assessable profits earned during the current period. Accordingly, tax charge for the period represents utilisation of deferred tax asset recognised in prior years. For the six months ended 30th June, 2003, tax credit represents deferred tax asset recognised in respect of unused tax losses available for offsetting against future profits.

6. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated based on (i) the net profit from ordinary activities attributable to shareholders of HK\$5,966,000 (2003 – HK\$1,870,000); and (ii) the number of 225,000,000 ordinary shares (2003 – 225,000,000 ordinary shares) in issue during the period.

(b) Diluted earnings per share

No diluted earnings per share is presented for the periods ended 30th June, 2004 and 2003 as there were no dilutive potential ordinary shares.

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

7. MORTGAGE LOANS

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Total mortgage loan balances	4,040	5,479
Less: Provision for doubtful debts:		
General	(73)	(102)
Specific	(410)	(390)
	3,557	4,987
Amounts due within one year classified as current assets	(1,712)	(2,141)
Non-current portion	1,845	2,846

8. OTHER INVESTMENTS IN SECURITIES

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Listed equity securities, at market value		
Hong Kong	10,449	60,681
Overseas	19,378	25,388
Unlisted investment funds, at fair value	20,205	-
	50,032	86,069

9. SHARE CAPITAL

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
<i>Authorised:</i>		
300,000,000 (31st December, 2003 – 300,000,000) ordinary shares of HK\$1.00 each	300,000	300,000
<i>Issued and fully paid:</i>		
225,000,000 (31st December, 2003 – 225,000,000) ordinary shares of HK\$1.00 each	225,000	225,000

10. RESERVE

	Accumulated losses HK\$'000
As at 1st January, 2004	(13,910)
Profit for the period	5,966
As at 30th June, 2004	(7,944)

11. RELATED PARTY TRANSACTION

During the period, the Group paid rental expenses amounting to HK\$334,000 (2003 – HK\$386,000) 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.

DISCUSSION AND ANALYSIS OF INTERIM RESULTS

The Group achieved improved results for the first half of 2004. Following the economic rebound since the third quarter of 2003, Hong Kong was on the road to recovery with steady growth of local consumer demand and business activities. The Group was well-positioned to take advantage of the improving economic conditions, and for the six months ended 30th June, 2004, achieved an operating profit before tax of HK\$6.4 million, against a loss of HK\$2 million for the same period last year.

Results for the period

A year ago, the outbreak of SARS drastically cut down most economic activities with stock and property markets remaining stagnant over the first half of 2003. With the upturn of the stock and property markets and business activities rebounding strongly, the Group's total turnover for the period registered a five-fold increase to HK\$178 million compared with HK\$35 million for the same period last year.

The Group took advantage of the continuous improvement in both Hong Kong and overseas securities markets and invested in higher yield securities to enhance returns. Total return from these investments for the period recorded a significant improvement to HK\$10 million (2003 – HK\$0.5 million), of which HK\$6.1 million (2003 – HK\$0.1 million) related to overseas investments. Against this, a provision for impairment in value of HK\$2 million (2003 – HK\$2 million) was made for its investment securities.

In light of the weak loan demand and narrowing interest margin, lending business in Hong Kong remained competitive and challenging. Total loan portfolio of the Group further reduced and income generated from mortgage finance dropped. Management continued to focus on asset quality so that loan loss was kept to a minimum.

The Group's operating results registered a turnaround from a loss of HK\$2 million in the first half of 2003 to a profit of HK\$6.4 million for the period under review. Taking into account the tax charge of HK\$0.5 million (2003 – a tax credit of HK\$3.8 million), the net profit attributable to shareholders stood at HK\$6 million (2003 – HK\$1.9 million).

Total assets

As at 30th June, 2004, total assets of the Group increased slightly to HK\$218 million (31st December, 2003 – HK\$213 million). About half (31st December, 2003 – 88 per cent.) of the assets were denominated in Hong Kong and United States dollars. During the period, the Group took advantage of the booming overseas securities markets and invested in assets denominated in other overseas currencies for short term purposes. The foreign exchange risk was managed and monitored on an ongoing basis including using when appropriate, hedging instruments such as forward contracts, swaps and currency loans. The Group will remain alert of changing global circumstances which may affect exchange rate exposure.

The Group maintained a very healthy liquidity position over the period with other investments in securities amounted to HK\$50 million (31st December, 2003 – HK\$86 million) and total cash and bank balances amounted to HK\$158 million (31st December, 2003 – HK\$107 million).

DISCUSSION AND ANALYSIS OF INTERIM RESULTS *(continued)***Capital structure**

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, 2004 (31st December, 2003 – Nil).

Taking into account the profit for the period, the net asset value of the Group increased from HK\$211 million at the end of 2003 to HK\$217 million at the end of June 2004, equivalent to HK\$0.96 (31st December, 2003 – HK\$0.94) per share.

Staff and remuneration

The Group had 13 employees as at 30th June, 2004 (2003 – 14 employees) and total staff costs incurred during the period amounted to HK\$1,090,000 (2003 – HK\$679,000). The Group offered competitive remuneration packages to its employees.

Outlook

Looking ahead, Hong Kong is facing a rising interest rate environment and will inevitably be affected by global economic and political instability. The operating environment is still challenging. However, with the Central and Hong Kong governments' determination to boost the Hong Kong economy and given its own strong financial position, the Group is well-positioned to capture various investment opportunities with attractive returns in pursuit of enhancing shareholders' value.

BUSINESS REVIEW AND PROSPECTS

Business review

Following the economic pick up from the depressed operating environment last year, the local economy enjoyed a discernible recovery during the period under review. Lower unemployment rate and upturn of the stock and property markets boosted local confidence and investment sentiment.

Although Hong Kong experienced an economic rebound during the first half of 2004, competition in the mortgage loan sector was still keen and interest rates were also still at a low level. Accordingly, the loan portfolio of the Group and the income generated from mortgage finance reduced further. During the period, the Group took advantage of the continuous improvement in the securities markets and invested in higher yield securities which brought satisfactory returns. Turnover of the Group registered a five-fold increase to HK\$178 million for the period. With improving market conditions, the Group achieved a net profit attributable to shareholders of HK\$6 million for the period. The Group was debt-free and maintained a strong liquidity position.

Prospects

Looking ahead, the threat of terrorism and soaring oil prices may slow down global economic recovery. However, the economic growth of China Mainland is still encouraging despite the implementation of macro-economic tightening measures. It is expected that Hong Kong will continue to benefit from the extension of the Individual Visitors Scheme and Closer Economic Partnership Arrangement between China Mainland and Hong Kong which may provide many business opportunities in the Mainland and boost investments in Hong Kong by Mainland enterprises. In spite of global economic uncertainties, the outlook of the local economy is generally optimistic. With its strong and healthy financial position, the Group is well-positioned to take advantage of various business and investment opportunities.

ADDITIONAL INFORMATION**Interim dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004 (2003 – Nil).

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations

As at 30th June, 2004, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO 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 Issuers under the Rules Governing the Listing of Securities on the Stock Exchange (the "Model Code") were as follows:

1. *Interests in shares of the Company's associated corporations***Lippo Limited**

Name of Director	Number of ordinary shares of HK\$0.10 each			Approximate percentage of total interests in the issued share capital
	Personal interest (held as beneficial owner)	Family interest (interest of spouse)	Total interests	
Jark Pui Lee	–	48	48	0.00

Hongkong Chinese Limited

Name of Director	Number of ordinary shares of HK\$1.00 each			Approximate percentage of total interests in the issued share capital
	Personal interest (held as beneficial owner)	Family interest (interest of spouse)	Total interests	
Jark Pui Lee	350	350	700	0.00

ADDITIONAL INFORMATION (continued)**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** (continued)2. *Interests in underlying shares of the Company's associated corporation***Lippo China Resources Limited**

Name of Director	Capacity and nature of interest	Number of underlying shares of HK\$0.10 each in respect of which options have been granted*	Approximate percentage of the issued share capital
Jonathan Miles Foxall	Personal (held as beneficial owner)	6,000,000	0.06
David T. Yeh	Personal (held as beneficial owner)	9,000,000	0.09

* 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 Share Option Scheme") adopted by Lippo China Resources Limited ("LCR"). Such options vested after two months from the date when the options were deemed to be granted and accepted and are exercisable from 23rd August, 1997 to 23rd June, 2007 in accordance with the rules of the LCR Share Option Scheme to subscribe for ordinary 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 ordinary 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, 2004 and the quantity of options held by each of the above Directors as at 1st January, 2004 and 30th June, 2004 remained unchanged.

The above interests in the underlying shares were held pursuant to unlisted physically settled equity derivatives. As at 30th June, 2004, none of the Directors or chief executive of the Company had any interests in the underlying shares in respect of cash settled or other equity derivatives of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2004, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed herein, as at 30th June, 2004, none of the Directors or chief executive of the Company nor their spouses or minor children (natural or adopted) were granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

ADDITIONAL INFORMATION *(continued)***Interests and short positions of shareholders discloseable under the Securities and Futures Ordinance**

As at 30th June, 2004, so far as is known to the Directors of the Company, the following substantial shareholders (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and other persons, other than the Directors or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO") as follows:

Interests of substantial shareholders (as defined under the Listing Rules) and other persons in the shares of the Company

Name	Number of ordinary shares of HK\$1.00 each	Approximate percentage of the Company's issued share capital
<i>Substantial shareholders:</i>		
Lippo China Resources Limited ("LCR")	168,313,038	74.80
Lippo Limited ("Lippo")	168,313,038	74.80
Lippo Cayman Limited ("Lippo Cayman")	168,313,038	74.80
Lanius Limited ("Lanius")	168,313,038	74.80
Dr. Mochtar Riady	168,313,038	74.80
Madam Lidya Suryawaty	168,313,038	74.80
<i>Other persons:</i>		
CITIC Ka Wah Bank Limited ("CITIC Ka Wah")	11,250,000	5.00
CITIC International Financial Holdings Limited ("CIFH")	11,250,000	5.00
China International Trust and Investment Corporation ("CITIC")	11,250,000	5.00

Note:

- (i) 168,313,038 ordinary shares of the Company were held by HKCB Corporation Limited directly as beneficial owner which was wholly owned by LCR through its wholly-owned subsidiary, No. 1 Dragon Ltd. LCR was a 71.13 per cent. owned subsidiary of Skyscraper Realty Limited which in turn was a wholly-owned subsidiary of First Tower Corporation ("First Tower"). First Tower was a wholly-owned subsidiary of Lippo. Lippo Cayman, and through its wholly-owned subsidiaries, Lippo Capital Limited (which owned approximately 50.47 per cent. interest in the issued share capital of Lippo), J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in approximately 57.34 per cent. of the issued share capital of Lippo.
- (ii) Lanius was the registered shareholder of the entire issued share capital of Lippo Cayman and was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder. The beneficiaries of the trust included Dr. Mochtar Riady and his family members. Madam Lidya Suryawaty is the spouse of Dr. Mochtar Riady. Dr. Mochtar Riady was not the registered holder of any shares in the issued share capital of Lanius.
- (iii) LCR's interests in the ordinary shares of the Company were recorded as the interests of Lippo, Lippo Cayman, Lanius, Dr. Mochtar Riady and Madam Lidya Suryawaty.
- (iv) 11,250,000 ordinary shares of the Company were held by CITIC Ka Wah directly as beneficial owner. CITIC Ka Wah was a wholly-owned subsidiary of CIFH which in turn was a 54 per cent. owned subsidiary of CITIC.

ADDITIONAL INFORMATION *(continued)***Interests and short positions of shareholders discloseable under the Securities and Futures Ordinance** *(continued)*

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2004, none of the substantial shareholders (as defined under the Listing Rules) or other persons, other than Directors or chief executive of the Company, had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Purchase, sale or redemption of the Company's listed securities

During the six months ended 30th June, 2004, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

Audit committee

The Company has established an audit committee (the "Committee") in 1998 in accordance with paragraph 14 of 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. The existing members of the Committee are Messrs. Leon Nim Leung Chan and Michael Kwok Shung Chan, independent non-executive Directors of the Company, and the Committee meets regularly. The Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th June, 2004.

Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code") 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 as required by paragraph 7 of the Code. Save for Mr. Ning Gaoning who is the Chairman of the Company, all the non-executive Directors 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.

Model Code for Securities Transactions by Directors

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the code for securities transactions by Directors. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code during the period.

By Order of the Board
The Hong Kong Building and Loan Agency Limited
Jark Pui Lee
Director

Hong Kong, 9th September, 2004