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If you are in any doubt as to any aspect of this offeree board circular, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in The Hong Kong Building and Loan Agency Limited, you should at once hand this offeree board circular to the purchaser(s) or transferee(s) or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**THE HONG KONG BUILDING AND LOAN AGENCY LIMITED**  
**香港建屋貸款有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 145)**

**MANDATORY UNCONDITIONAL CASH OFFER BY  
SUN HUNG KAI INTERNATIONAL LIMITED  
FOR AND ON BEHALF OF  
ISLAND NEW FINANCE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$1.00 EACH IN THE CAPITAL OF  
THE HONG KONG BUILDING AND LOAN AGENCY LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED BY  
OR AGREED TO BE ACQUIRED BY  
ISLAND NEW FINANCE LIMITED)**

**Independent financial adviser to the Independent Board Committee of  
The Hong Kong Building and Loan Agency Limited**



**博大資本國際有限公司**

**Partners Capital International Limited**

A letter from the Board containing its recommendation in respect of the Offer is set out on pages 5 to 8 of this offeree board circular.

A letter from the Independent Board Committee to the Independent Shareholders is set out on page 9 of this offeree board circular. A letter of advice from Partners Capital containing its opinion and advice to the Independent Board Committee is set out on pages 10 to 25 of this offeree board circular.

28 September, 2005

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## EXPECTED TIMETABLE

Opening date of the Offer ..... Wednesday, 14 September, 2005

Despatch of the offeree board circular ..... Wednesday, 28 September, 2005

Latest time and date for  
acceptance of the Offer (*Note 1*) ..... 4:00 p.m. on Wednesday,  
12 October, 2005

Closing date of the Offer ..... Wednesday, 12 October, 2005

Announcement in respect of the closing of the  
Offer and valid acceptances under the Offer  
to appear in at least one English newspaper  
and one Chinese newspaper on ..... Thursday, 13 October, 2005

Latest date for posting of remittances  
for the amounts due under the Offer  
in respect of valid acceptances (*Note 2*) ..... Saturday, 22 October, 2005

*Notes:*

1. The Offer, which is unconditional, will close on Wednesday, 12 October, 2005. The Offeror stated in the Offer Document that it has no intention to extend the Offer under any circumstance.
2. Remittances in respect of the consideration payable for the Offer Shares tendered under the Offer will be posted to the Accepting Shareholders as soon as practicable, but in any event within ten days after the receipt by the Registrar of the valid requisite documents from the Accepting Shareholders.
3. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

***All time references contained in this offeree board circular refer to Hong Kong time.***

## DEFINITIONS

*In this offeree board circular, the following expressions shall have the meanings respectively set opposite them unless the context otherwise requires:*

“Accepting Shareholders”	Shareholders who accept the Offer;
“acting in concert”	shall have the meaning set out in the Takeovers Code;
“Allied”	Allied Group Limited 聯合集團有限公司, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange;
“Announcements”	the announcements dated 6 July, 2005 made, respectively, by the Offeror (amongst others) and HKBLA (amongst others), in each case concerning the entering into of the Sale and Purchase Agreement and the possibility of the Offer;
“associates”	shall have the meaning set out in Rule 1.01 of the Listing Rules;
“Board”	the board of Directors;
“Closing Date”	12 October, 2005;
“Director(s)”	director(s) of HKBLA;
“Form of Acceptance”	the form of acceptance and transfer in respect of the Offer Shares;
“Group”	HKBLA and its subsidiary/subsidiaries (as the case may be);
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKBLA” or the “Company”	The Hong Kong Building and Loan Agency Limited 香港建屋貸款有限公司, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange;
“HKCB”	HKCB Corporation Limited, a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of LCR;

## DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	a committee of the Board comprising Dr. Nai Kong Leung, an independent non-executive Director, and Mr. Wai Lam Chan, a non-executive Director, constituted for the purpose of this offeree board circular to advise the Independent Shareholders in connection with the Offer;
“Independent Shareholders”	the Shareholders other than the Offeror and parties acting in concert with it;
“Latest Practicable Date”	26 September, 2005, being the latest practicable date prior to the printing of this offeree board circular for ascertaining certain information referred to in this offeree board circular;
“LCR”	Lippo China Resources Limited 力寶華潤有限公司, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange and an approximately 71.13 per cent. owned subsidiary of Lippo;
“Lippo”	Lippo Limited 力寶有限公司, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange in force from time to time;
“Offer”	the mandatory unconditional cash offer for all the issued Shares, other than those Shares already owned by or agreed to be acquired by the Offeror, at the Offer Price, made by SHK for and on behalf of the Offeror in accordance with the Takeovers Code;
“Offer Document”	the document dated 14 September, 2005 issued by SHK on behalf of the Offeror addressed to the Shareholders containing, inter alia, the Offer;
“Offer Period”	the period from 6 July, 2005, when the Announcements of the possibility of the Offer was made, to 12 October, 2005, the date when the Offer closes for acceptances;
“Offer Price”	HK\$1.0933 per Offer Share;

## DEFINITIONS

“Offer Share(s)”	the Share(s) subject to the Offer;
“offeree board circular”	this offeree board circular;
“Offeror Group” or the “Allied Group”	Allied and its subsidiaries;
“Offeror”	Island New Finance Limited, a company incorporated in the British Virgin Islands with limited liability and a member of the Allied Group;
“Partners Capital”	Partners Capital International Limited, a licensed corporation to carry on types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee in respect of the Offer;
“PRC”	the People’s Republic of China, which for the purposes of this offeree board circular shall exclude Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan;
“public”	shall have the meaning set out in Rule 1.01 of the Listing Rules;
“Registrar”	Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, being the share registrar of HKBLA for receiving and processing acceptances of the Offer in respect of the Offer Shares;
“Relevant Period”	the period commencing on the date falling six months prior to the commencement date of the Offer Period and ending on the Latest Practicable Date;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 18 June, 2005 between, amongst others, HKCB and the Offeror in relation to the sale and purchase of an aggregate of 168,313,038 Shares, representing approximately 74.8 per cent. of the issued share capital of HKBLA;
“Securities and Futures Ordinance”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;

## DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong;
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of HKBLA;
“Shareholder(s)”	holder(s) of Share(s);
“SHK”	Sun Hung Kai International Limited, the financial adviser to the Offeror and a licensed person registered under the Securities and Futures Ordinance to engage in the dealing in securities and advising on corporate finance;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers in force from time to time.

LETTER FROM THE BOARD



**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)**

*Non-executive Directors:*

Mr. Ning Gaoning (*Chairman*)

Mr. Leon Nim Leung Chan

Mr. Wai Lam Chan

*Executive Directors:*

Mr. David T. Yeh (*Chief Executive Officer*)

Mr. Jark Pui Lee, O.B.E., J.P.

Mr. Jonathan Miles Foxall

Mr. Tai Chiu Ng

*Registered Office:*

Room 2301, 23rd Floor

Tower One

Lippo Centre

89 Queensway

Hong Kong

*Independent Non-executive Directors:*

Dr. Nai Kong Leung, B.B.S., J.P.

Mr. Victor Ha Kuk Yung

Mr. King Fai Tsui

28 September, 2005

*To the Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
SUN HUNG KAI INTERNATIONAL LIMITED  
FOR AND ON BEHALF OF  
ISLAND NEW FINANCE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$1.00 EACH IN THE CAPITAL  
OF THE HONG KONG BUILDING AND LOAN AGENCY LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED BY  
OR AGREED TO BE ACQUIRED BY  
ISLAND NEW FINANCE LIMITED)**

**INTRODUCTION**

Reference is made to the Announcements. Pursuant to the Sale and Purchase Agreement, as described in the Announcements, the Offeror conditionally agreed to purchase and HKCB conditionally agreed to sell an aggregate of 168,313,038 Shares, representing approximately 74.8 per cent. of the issued share capital of HKBLA, for the consideration of HK\$184 million in cash, representing a price of approximately HK\$1.0932 per Share.



## LETTER FROM THE BOARD

Completion of the Sale and Purchase Agreement took place on 12 September, 2005, as a result of which the Offeror became the beneficial owner of a total of 168,313,038 Shares, representing approximately 74.8 per cent. of the total issued share capital of the Company immediately after the completion of the Sale and Purchase Agreement. The Offeror therefore became obliged, under Rule 26.1 of the Takeovers Code, to make a mandatory unconditional cash offer to acquire all the issued Shares other than those owned by or agreed to be acquired by the Offeror or parties acting in concert with it. The Offer has now been made by SHK, on behalf of the Offeror, and you should, by now, have received the Offer Document containing, inter alia, details of the Offer and the Form of Acceptance.

Partners Capital has been appointed as the independent financial adviser to advise the Independent Board Committee on the fairness and reasonableness of the terms of the Offer.

The purpose of this offeree board circular is to provide you with, among other matters, information relating to HKBLA as well as setting out the letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders in respect of the Offer and the letter from Partners Capital containing its advice to the Independent Board Committee in respect of the Offer.

### THE OFFER

SHK is making the Offer, for and on behalf of the Offeror, subject to the terms set out in the Offer Document and the Form of Acceptance, to acquire all the issued Shares not already owned by or agreed to be acquired by the Offeror, at the Offer Price, on the following basis:

For each Offer Share ..... HK\$1.0933 payable in cash

The Offer Price of HK\$1.0933 per Offer Share represents:

- (a) a premium of approximately 32.04 per cent. over the average closing price of HK\$0.8280 per Share, based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 17 June, 2005, being the last trading day prior to the signing of the Sale and Purchase Agreement;
- (b) a premium of approximately 7.19 per cent. over the closing price of HK\$1.02 per Share as quoted on the Stock Exchange on 17 June, 2005;
- (c) a premium of approximately 12.13 per cent. over the published audited consolidated net asset value per Share of HK\$0.9750 as at 31 December, 2004; and
- (d) a premium of approximately 13.18 per cent. over the unaudited consolidated net asset value per Share of HK\$0.9660 as at 30 June, 2005.

## LETTER FROM THE BOARD

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$1.090 per Share (on 17 to 26 August, 2005, 8 to 12 September, 2005 and 15 to 16 September, 2005) and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.520 per Share (on 3 February, 2005).

The Offer Price of HK\$1.0933 per Offer Share is nearly the same (subject to a de minimis rounding) as the price per Share paid by the Offeror under the Sale and Purchase Agreement to acquire an aggregate of 168,313,038 Shares from HKCB.

By accepting the Offer in respect of their Offer Shares, Shareholders will sell their Offer Shares free from all liens, claims and encumbrances and with all rights attached, including the rights to receive all dividends and distributions, if any, declared, made or paid on or after 6 July, 2005 (the day on which the Offeror announced the conditional acquisition of the 168,313,038 Shares from HKCB and the possible mandatory cash offer for the Offer Shares). Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

Seller's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the greater of (i) the amount payable or (ii) the market value of the relevant Shares in respect of relevant acceptances of the Offer for the Offer Shares will be payable by the Accepting Shareholders. The Offeror will pay such amount of stamp duty on behalf of and for the account of the Accepting Shareholders who accept the Offer and such amount will be deducted from the amount payable to the Accepting Shareholders on acceptance of the Offer.

The Offer is unconditional and is not subject to the attainment of any particular level of acceptances in respect of the Offer.

At as the Latest Practicable Date, a total of 51,900,667 Shares were held by the public, amounting to 23.07 per cent. of the entire issued capital of HKBLA. This is below the minimum float requirement of 25 per cent. as provided for in the Listing Rules.

Pursuant to Rules 8.08(1)(c) and 13.33 of the Listing Rules, an application has been made by the Company for the grant of a temporary waiver to the Company from compliance with the minimum public float requirement under the Listing Rules.

**According to the Offer Document, it is the intention of the Offeror to maintain listing of the Shares on the Stock Exchange. The directors of the Offeror and the directors proposed to be appointed to the Board of HKBLA have jointly and severally undertaken to the Stock Exchange to take appropriate steps as soon as possible following the closing of the Offer to ensure that sufficient public float exists in the Shares.**

According to the Offer Document, no agreement, arrangement or understanding has been made, or intended to be made, to transfer any of the Shares to be acquired by the Offeror under the Offer to any person, except, if required, for the possible placing of Shares to restore the public float of HKBLA.

## LETTER FROM THE BOARD

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to HKBLA, being 25 per cent. of the Shares, are held by the public, or if the Stock Exchange believes that a false market exists or may exist in the trading in the Shares or there are insufficient Shares in the public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

### BUSINESS AND FINANCIAL INFORMATION

For the six months ended 30 June, 2005, mortgage finance and treasury investments (which includes securities investment and other treasury activities) remained the principal businesses of the Group. During the said period, the Group recorded a turnover of approximately HK\$68 million and a loss of HK\$2 million. The decrease in turnover and the loss for the period was mainly due to decrease in securities trading activities and the profit arising therefrom. Although the upturn of price levels and turnover boosted the local property market, mortgage finance business was still challenging with narrow interest margin and keen competition. The loan portfolio of the Group further reduced and income generated from mortgage loans also dropped as compared to the corresponding period last year.

The Group did not have any bank borrowings and its financial position remained strong for the six months ended 30 June, 2005. As at 30 June, 2005, total assets of the Group amounted to HK\$218 million. Taking into account the loss for the aforesaid period, net asset value of the Group reduced slightly from HK\$219 million as at 31 December, 2004 to HK\$217 million as at 30 June, 2005. The consolidated net asset value per Share stood at HK\$0.966.

### FURTHER INFORMATION

You are recommended to read the Offer Document and the Form of Acceptance for information in relation to the Offer, the making of the Offer to Shareholders residing in overseas countries, taxation, acceptance and settlement procedures of the Offer.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee, set out in this offeree board circular, which contains its recommendation to the Independent Shareholders in respect of the Offer, and the letter from Partners Capital which contains its advice to the Independent Board Committee in respect of the fairness and reasonableness of the Offer, and the principal factors and reasons it has considered before arriving at its advice to the Independent Board Committee.

Yours faithfully,  
By Order of the Board  
**THE HONG KONG BUILDING AND  
LOAN AGENCY LIMITED**  
**Ning Gaoning**  
*Chairman*



**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)**

28 September, 2005

*To the Independent Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
SUN HUNG KAI INTERNATIONAL LIMITED  
FOR AND ON BEHALF OF  
ISLAND NEW FINANCE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$1.00 EACH IN THE CAPITAL  
OF THE HONG KONG BUILDING AND LOAN AGENCY LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED BY  
OR AGREED TO BE ACQUIRED BY  
ISLAND NEW FINANCE LIMITED)**

Reference is made to the offeree board circular issued by HKBLA to the Shareholders dated 28 September, 2005 (the "offeree board circular") of which this letter forms part. Terms defined in the offeree board circular shall have the same meanings used in this letter unless the context otherwise requires.

The Independent Board Committee has been appointed by the Board to consider the terms of the Offer and to make a recommendation to the Independent Shareholders in connection with the Offer.

The Independent Board Committee wishes to draw your attention to the letter from the Board and the letter from Partners Capital, as set out in this offeree board circular.

Having considered the principal factors and reasons considered by, and the advice of, Partners Capital as set out in its letter of advice, the Independent Board Committee considers that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to accept the Offer if they no longer wish to retain part or all of their investments in the Shares.

Yours faithfully,

**Independent Board Committee**

**Nai Kong Leung**

*Independent Non-executive Director*

**Wai Lam Chan**

*Non-executive Director*

## LETTER FROM PARTNERS CAPITAL



博大資本國際有限公司  
Partners Capital International Limited

**Partners Capital International Limited**  
Room 1305, 13th Floor  
9 Queen's Road Central  
Hong Kong

28 September, 2005

*To the Independent Board Committee*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
SUN HUNG KAI INTERNATIONAL LIMITED  
ON BEHALF OF  
ISLAND NEW FINANCE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$1.00 EACH IN THE SHARE CAPITAL  
OF THE HONG KONG BUILDING AND LOAN AGENCY LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED BY OR  
AGREED TO BE ACQUIRED BY  
ISLAND NEW FINANCE LIMITED)**

### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee in respect of the terms of the Offer, particulars of which are set out in the Offer Document. An offeree board circular ("the Document") dated 28 September, 2005, in which this letter is reproduced, has been despatched by the Company to the Independent Shareholders in response to the Offer. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed "Definitions" in the Document.

As set out in the letter from the Board (the "Letter from the Board"), the Offeror announced on 6 July, 2005 that it entered into an agreement for sale and purchase with, inter alia, HKCB on 18 June, 2005 pursuant to which the Offeror agreed to acquire 168,313,038 Shares (the "Sale Shares") from HKCB and that the Offeror would be required to make the Offer after completion of the acquisition of the Sale Shares. On 7 September, 2005, the Company announced that all the conditions of such agreement had been fulfilled. Completion of the acquisition of the Sale Shares took place on 12 September, 2005 and accordingly, SHK has made the Offer for and on behalf of the Offeror.

There were a total of 225,000,000 Shares in issue as at the Latest Practicable Date. Immediately after the completion of the acquisition of the Sale Shares, the Offeror became the beneficial owner of 168,313,038 Shares, representing approximately 74.8 per cent. of the issued share capital of the Company. Accordingly, under Rule 26.1 of the Takeovers Code, the Offeror is required to make the Offer for all the Offer Shares.

## LETTER FROM PARTNERS CAPITAL

SHK, on behalf of the Offeror, is making the Offer on the following basis:

for each Offer Share ..... HK\$1.0933 in cash

Further terms and conditions of the Offer, including the procedures for acceptance, are set out in the Offer Document.

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising Mr. Wai Lam Chan and Dr. Nai Kong Leung, was formed to advise the Independent Shareholders in respect of the Offer. None of the following non-executive Directors is considered to be independent for the purpose of giving any advice or recommendation to the Independent Shareholders in relation to the Offer for, inter alia, the following reasons:

- (1) Mr. Ning Gaoning is the chairman of the Company and a non-executive Director and also a non-executive director of LCR and the President Commissioner of the board of commissioners of a company, in which the Riady Family (being the beneficiaries of a discretionary trust, the trustee of which holds the entire issued share capital of Lippo Cayman Limited ("Lippo Cayman"), the ultimate holding company of Lippo) has held over 10 per cent. interest;
- (2) Mr. Leon Nim Leung Chan is a non-executive Director and also a non-executive director of each of Lippo, LCR, Hongkong Chinese Limited ("HCL") (a subsidiary of LCR), and an independent non-executive director of Auric Pacific Group Limited (a subsidiary of LCR) and Y.T. Chan & Co. (of which Mr. Leon Nim Leung Chan is the principal partner) has provided legal services to Lippo and its subsidiaries;
- (3) Mr. King Fai Tsui is an independent non-executive Director and also an independent non-executive director of each of Lippo, LCR, HCL and AcrossAsia Limited (a subsidiary of Lippo Cayman). In addition, Mr. Tsui and his spouse maintain securities trading accounts (as ordinary customers) with a wholly-owned subsidiary of Sun Hung Kai & Co. Ltd. ("SHK & Co."), a member of the Allied Group. Furthermore, the spouse of Mr. Tsui holds 50,000 ordinary shares of HK\$1.00 each in the issued share capital of HCL;
- (4) Mr. Victor Ha Kuk Yung is an independent non-executive Director and also an independent non-executive director of each of LCR, Lippo and HCL. In addition, Mr. Yung and his spouse maintain securities trading accounts (as ordinary customers) with a wholly-owned subsidiary of SHK & Co.

Partners Capital International Limited is not connected with the directors, chief executive and substantial shareholders of the Company and the Offeror or any of its subsidiaries or their respective associates and therefore is considered suitable to give independent advice to the Independent Shareholders. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Partners Capital International Limited will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

## LETTER FROM PARTNERS CAPITAL

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Document and have assumed that all information and representations made or referred to in the Document as provided by the Directors and/or the Offeror were true at the time they were made and continue to be true as at the date of the Document. We have also relied on our discussion with the Directors regarding the Group and the Offer, including the information and representations contained in the Document. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Offeror respectively in the Document were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Document and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Document nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Offeror. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Offeror, United Asia Finance Limited, Allied and their respective associates nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Independent Shareholders of their acceptances or non-acceptances of the Offer since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offer and, if in any doubt, should consult their own professional advisers.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Offer, we have considered the following principal factors and reasons:

#### (i) Review of financial performance

A summary of the audited consolidated results of the Group for the three years ended 31 December, 2004, the unaudited consolidated results of the Group for the six months ended 30 June, 2005 and the audited consolidated financial statements of the Group for the two years ended 31 December, 2004 are set out in the Appendix I to the Document. We analyse the audited consolidated results of the Group for each of the three years ended 31 December, 2004 as follows:

- *Audited consolidated results for the year ended 31 December, 2002*

For the year ended 31 December, 2002, the Group recorded a turnover of approximately HK\$90.5 million, representing an increase of approximately 22.0 per cent. as compared with that of the preceding financial year. For the same financial year, the Group recorded a net loss attributable to Shareholders of approximately HK\$16.3 million as compared to the net loss of approximately HK\$32.1 million for the year ended 31 December, 2001.

## LETTER FROM PARTNERS CAPITAL

According to the annual report of the Company for the year ended 31 December, 2002, the conflicts in the Middle East have brought uncertainties to the global economy which had dampened the improvement of the local economy and thus the operating environment remained tough in 2002. In addition, high unemployment rate and poor investment sentiment led to a sluggish stock market and a stagnant property market with sliding property prices. Furthermore, weak residential loan demand continued to intensify the keen competition in mortgage loan section. Given such difficult economic environment, the Group recorded a net loss attributable to shareholders for the year 2002. Notwithstanding the aforesaid, the turnover of the Group for the year ended 31 December, 2002 increased due to increase in turnover generated from treasury investment activities.

- *Audited consolidated results for the year ended 31 December, 2003*

For the year ended 31 December, 2003, the Group recorded a turnover of approximately HK\$74.4 million, representing a reduction of approximately 17.8 per cent. as compared with that of the preceding financial year. For the same financial year, the Group recorded a net profit attributable to Shareholders of HK\$5.0 million as compared to the net loss attributable to Shareholders of approximately HK\$16.3 million for the year ended 31 December, 2002.

According to the annual report of the Company for the year ended 31 December, 2003, the poor market sentiment, rising unemployment rate and prolonged deflation continued to dampen local investor confidence and private consumption. The difficult local business environment was further hit by the impact of Severe Acute Respiratory Syndrome crisis in Hong Kong and other Asian countries. Given the weak global and local economic conditions, the stock and property markets remained stagnant in the first half of the year 2003.

In the second half of the year 2003, the introduction of Closer Economic Partnership Arrangement between the PRC and Hong Kong and the surge of China Mainland visitors have helped to stimulate the growth of local consumer demand and business activities. The rally in the stock and property markets has boosted consumer confidence and investment sentiment in the second half of the year 2003. Moreover, due to keen competition in the mortgage loan sector and the fall of market rates, the total loan portfolio of the Group has decreased in size and the level of income generated from mortgage finance has fallen. As such, the turnover of the Group for the year ended 31 December, 2003 decreased as compared to that of the preceding year.

- *Audited consolidated results for the year ended 31 December, 2004*

For the year ended 31 December, 2004, the Group recorded a turnover of approximately HK\$189.7 million, representing a significant increase of approximately 155.0 per cent. as compared with that of the preceding financial



## LETTER FROM PARTNERS CAPITAL

year. For the same financial year, the Group recorded a net profit attributable to Shareholders of HK\$8.3 million, representing an increase of approximately 65.3 per cent. as compared with that of the preceding financial year.

According to the annual report of the Company for the year ended 31 December, 2004, following the growth of the global economy and improved local economic conditions, Hong Kong economy enjoyed a strong rebound in 2004. Low cost of funds and renewed confidence boosted the property and securities markets. During the year 2004, the Group took advantage of the continuously improving securities markets and invested in higher yield securities which brought satisfactory returns and an increased in turnover for the year. The rebound of property as well as the growth of retail sales improved the consumer confidence and investment climate. However, with narrow interest margin and increased competition, mortgage finance business remained challenging. The loan portfolio of the Group and the income generated from mortgage finance dropped further.

- *Further analysis*

For the six months ended 30 June, 2005, the Group recorded a turnover of approximately HK\$68.0 million, representing a significant decrease of approximately 61.7 per cent. as compared with the turnover of HK\$177.6 million for the six months ended 30 June, 2004. For the same period, the Group recorded a net loss attributable to Shareholders of HK\$2.0 million as compared to the net profit attributable to Shareholders of approximately HK\$6.0 million for the six months ended 30 June, 2004. We note that the decrease in turnover and the loss of the Group for the six months ended 30 June, 2005 was primarily due to significant decrease in securities trading activities and the profit arising therefrom. According to the interim report of the Group for the six months ended 30 June, 2005, the loan portfolio of the Group and the income generated from mortgage finance further reduced as a result of the intense competition in the lending market. On the other hand, we have reviewed the investment portfolio of the Group as at 30 June, 2005 and noted that the Group had investments in Australia, Hong Kong, Japan and Singapore in the past. We further note that the Group currently had securities investments solely in Hong Kong, a majority of which comprised of blue chip stocks listed on the Stock Exchange, with a carrying value of approximately HK\$42.5 million as at the Latest Practicable Date.

Having reviewed the financial performance of the Group for the past three years and six months ended 30 June, 2005, we consider that the financial performance of the Group has been highly sensitive to the performance of both the property market and stock market and the trend of the interest rate in Hong Kong.

## LETTER FROM PARTNERS CAPITAL

### (ii) Share price performance and trading liquidity

The offer price of HK\$1.0933 per Share (the "Offer Price") is the nearest rounded up figure above the consideration paid by the Offeror for each Sale Share (which was approximately HK\$1.0932 per Sale Share) and represents respectively:-

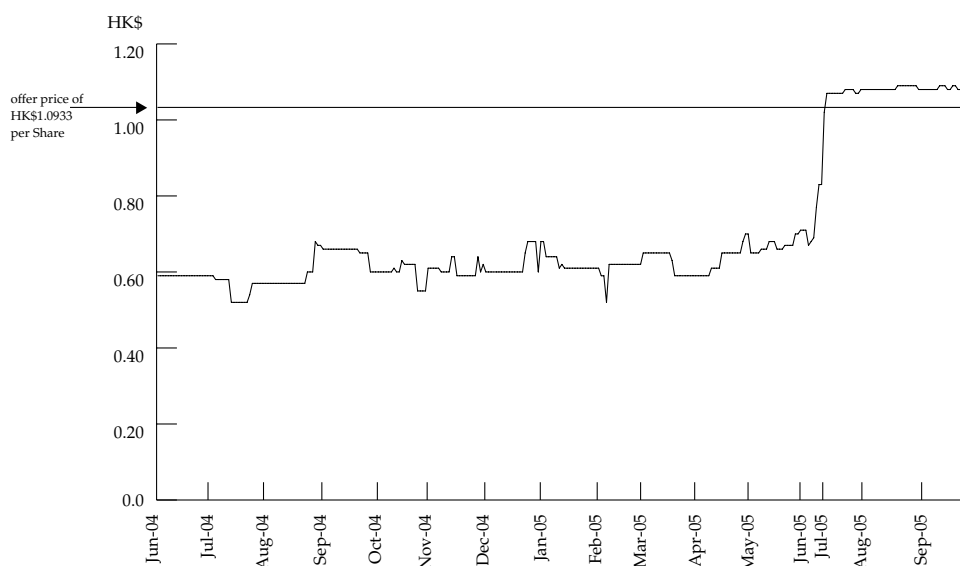
- (i) a premium of approximately 7.19% over the closing price of HK\$1.02 per Share as quoted on the Stock Exchange on 17 June, 2005, being the last trading day prior to 6 July, 2005 (the day on which the Offeror announced the conditional acquisition of the Sale Shares);
- (ii) a premium of approximately 43.48% over the average closing price of HK\$0.762 per Share as quoted on the Stock Exchange for the last 10 trading days ended on 17 June, 2005;
- (iii) a premium of approximately 52.27% over the average closing price of HK\$0.718 per Share as quoted on the Stock Exchange for the last 20 trading days ended on 17 June, 2005;
- (iv) a premium of approximately 65.90% over the average closing price of HK\$0.659 per Share as quoted on the Stock Exchange for the last 60 trading days ended on 17 June, 2005;
- (v) a premium of approximately 1.23% over the closing price of HK\$1.08 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a premium of approximately 12.13% over the audited consolidated net asset value as at 31 December, 2004 of HK\$0.975 per Share; and
- (vii) a premium of approximately 13.18% over the unaudited consolidated net asset value as at 30 June, 2005 of HK\$0.966 per Share.

## LETTER FROM PARTNERS CAPITAL

- *Share price performance*

For the purpose of further comparing the Offer Price of HK\$1.0933 per Share with the market price of the Shares, we plot the closing price level of the Shares traded on the Stock Exchange from 1 June, 2004 to 17 June, 2005 (being the last trading day prior to the day on which the Offeror announced the conditional acquisition of the Sale Shares) and further up to the Latest Practicable Date (the “Review Period”) as follows:

### Share price performance



Source: Infocast

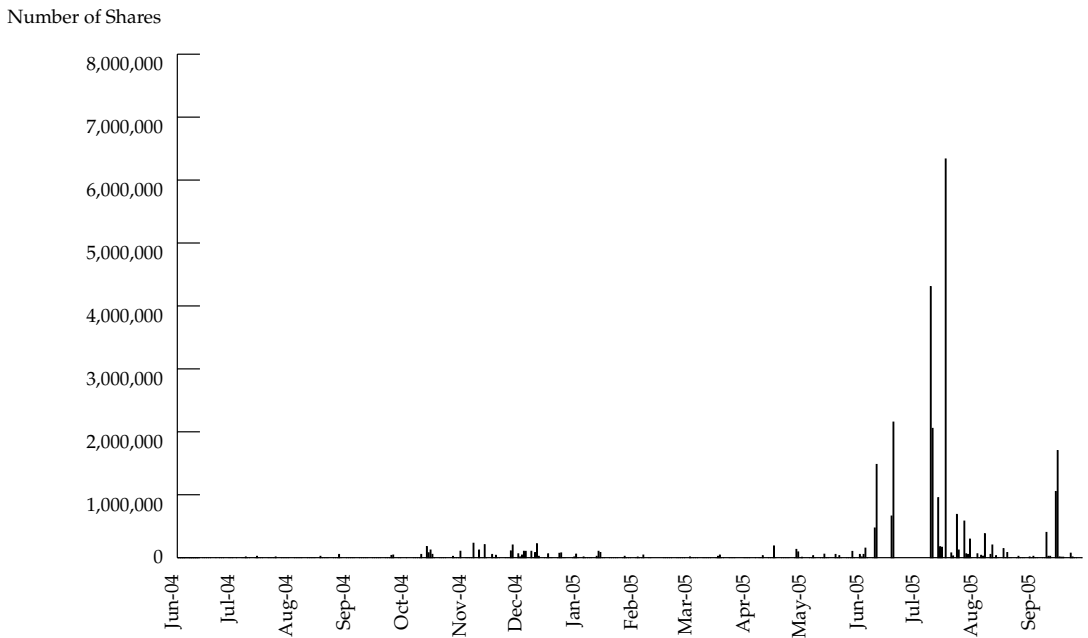
During the Review Period, the highest closing price was HK\$1.09 per Share recorded on 17, 18, 19, 22, 23, 24, 25, 26 August, 2005, 8, 9, 12, 15 and 16 September, 2005 respectively and the lowest closing price was HK\$0.52 per Share recorded on 13, 14, 15, 16, 19, 20, 21 July, 2004 and 3 February, 2005 respectively. The Offer Price represents premia of approximately 0.3% and approximately 110.3% over the highest closing price and the lowest closing price respectively during the Review Period.

# LETTER FROM PARTNERS CAPITAL

- *Liquidity*

For the purpose of assessing the trading liquidity of the Shares, the following chart shows the daily trading volume of the Shares during the Review Period:

## Trading volume



Source: Infocast

## LETTER FROM PARTNERS CAPITAL

Month	Highest daily turnover <i>(in number of Shares)</i>	Lowest daily turnover <i>(in number of Shares)</i>	Average daily turnover <i>(in number of Shares)</i>	Percentage of average daily turnover to total number of Shares in issue <i>(%)</i>	Percentage of average daily turnover to total number of Shares held by Independent Shareholders <i>(note)</i> <i>(%)</i>
<b>2004</b>					
June	0	0	0	0.000	0.000
July	20,000	0	1,905	0.001	0.004
August	50,000	0	3,182	0.001	0.006
September	40,000	0	3,524	0.002	0.007
October	176,000	0	31,192	0.014	0.060
November	228,000	0	46,136	0.021	0.089
December	220,000	0	42,091	0.019	0.081
<b>2005</b>					
January	100,000	0	10,952	0.005	0.021
February	40,000	0	3,412	0.002	0.007
March	40,000	0	2,857	0.001	0.006
April	185,000	0	22,000	0.010	0.042
May	98,000	0	16,100	0.007	0.031
June (from 1 June to 17 June)	2,153,000	0	620,375	0.276	1.195
July (from 7 July to 31 July)	6,334,000	0	1,058,133	0.470	2.039
August	380,000	0	45,652	0.020	0.088
September (up to the Latest Practicable Date)	1,700,000	0	193,647	0.086	0.373

Source: Infocast

Note: Based on the total number of Shares held by Independent Shareholders of 51,900,677 Shares which is equivalent to the number of Offer Shares as at the Latest Practicable Date.

During the Review Period, no trading of the Shares was recorded on 211 trading days on the Stock Exchange. Subsequent to publication of the announcement in relation to the conditional acquisition of the Sale Shares by the Offeror and up to the Latest Practicable Date, the average daily trading volume of the Shares ranged from 45,652 Shares to approximately 1,058,133 Shares, representing approximately 0.088% and approximately 2.039% of the total number of issued Shares held by Independent Shareholders respectively. We consider that the liquidity of the Shares has been generally thin during the Review Period.

## LETTER FROM PARTNERS CAPITAL

### (iii) Price/earnings multiple

One approach commonly applied for valuing a company engaging in investment holding, provision of mortgage finance and other related services and treasury investments by the investment community is price/earnings multiple. For comparison purpose and to the best of our knowledge and having made all reasonable enquiries, we could identify only three companies listed on the Main Board of the Stock Exchange which are principally engaged in loan financing business and securities investment (the "Comparables") which we consider that they are in the similar industry of the Company. To the best of our knowledge, we note that there are 14 companies listed on the Main Board of the Stock Exchange which also engage in mortgage finance business. However, given that their principal businesses are deposit-taking, credit cards, insurance, loans (including mortgage finance), foreign exchange, securities brokerage, pension scheme operation and etc. (as the case may be), we consider that such 14 listed companies do not fit into the Comparables. Details of the Comparables are set out in the following table:

Company name	Year end date	Closing share price as at 17 June, 2005 (HK\$)	Approximate Market Capitalisation (HK\$ million)	Latest published earnings per share (HK\$)	Price/earnings multiple (times)
Allied (Note 1)	31 December, 2004	10.75	2,802	2.89	3.7
JCG Holdings Limited (Note 2)	31 December, 2004	8.00	5,662	0.583	13.7
Aeon Credit Service (Asia) Company Limited (Note 3)	20 February, 2005	5.00	2,094	0.3495	14.3
				Mean	10.6
				Median	13.7
The Company	31 December, 2004	1.02	230	0.037	27.6
Offer price of HK\$1.0933 per Share		1.0933		0.037	29.5

Source: [www.hkex.com.hk](http://www.hkex.com.hk) and Infocast

## LETTER FROM PARTNERS CAPITAL

*Notes:*

1. Allied is principally engaged in property development and investment, hospitality related activities, and the provision of financial services (including consumer financing). The provision of financial services is operated under United Asia Finance Limited, a non wholly-owned subsidiary of Allied.
2. JCG Holdings Limited is principally engaged in the deposits taking, personal and commercial lending, operation of a credit card business, mortgage financing stockbroking, letting of investment properties, taxi trading and related operation.
3. Aeon Credit Service (Asia) Company Limited is principally engaged in the provision of consumer credit finance services which include the issuance of credit cards, provision of vehicle financing, hire purchase financing and personal loan financing.

Upon comparison, we note that the price/earnings multiple represented by the Offer Price of HK\$1.0933 per Share of 29.5 time lies well above the range of the Comparables from 3.7 times to 14.3 times, which were calculated with reference to the respective closing price of shares of the Comparables as at 17 June, 2005, being the last trading day prior to the day on which the Offeror announced the conditional acquisition of the Sale Shares.

From the perspective of price/earnings multiples with reference to the Comparables, we consider that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM PARTNERS CAPITAL

### (iv) Net tangible asset value

In addition to price/earnings multiples, we also assess the Company by reference to its net asset value. For the purpose of assessing whether the Offer Price is fair and reasonable with respect to the net tangible asset value per Share, we have reviewed and tabulated below the premia/(discount) of the closing share prices of the Comparables as at 17 June, 2005 over/to their respective net tangible asset value as reported in their latest published financial reports:

Company name	Year end date	Closing share price as at 17 June, 2005 (HK\$)	Latest published net tangible asset value per share (HK\$)	Premium/ (discount) of the closing share price on 17 June, 2005 over/to the latest published net tangible asset value per share
Allied	31 December, 2004	10.75	21.71	(50.48)%
JCG Holdings Limited	31 December, 2004	8.0	3.21	149.22%
Aeon Credit Service (Asia) Company Limited	20 February, 2005	5.0	3.03	65.02%
			Mean	54.59%
			Adjusted Mean (after excluding the discount)	107.12%
			Median	65.02%
The Company	31 December, 2004	1.02	0.951	7.26%
Offer price of HK\$1.0933 per Share		1.0933	0.951	14.96%

Source: www.hkex.com.hk and Infocast

The premia/(discount) of the closing share prices as at 17 June, 2005, being the last trading day preceding the day on which the Offeror announced the conditional acquisition of the Sale Shares, over/to the net tangible asset value per share of the Comparables range from a discount of approximately 50.48% to a premium of approximately 149.22%.



## LETTER FROM PARTNERS CAPITAL

Upon comparison, we note that the premium of the Offer Price over the unaudited net tangible asset value per Share as at 30 June, 2005 of approximately 14.96% falls within the range of the Comparables but falls below the mean, adjusted mean and median of the Comparables. Notwithstanding the aforesaid, we note that out of total assets of the Group of approximately HK\$218.5 million as at 30 June, 2005, approximately HK\$171.8 million were cash and cash equivalents.

The Group is engaged in the provision of mortgage finance to owner-occupiers of residential flats in the middle-income group. As advised by the Company, given that the property market downturn since late 1997, the business risks associated with the customers increased substantially. We were further advised by the Company that the Group faces keen competition from other financial institutions such as commercial banks and credit finance companies which may adopt more aggressive approaches towards higher risk loans. Meanwhile, we note that the Group has been taking in a prudent and conservative approach under such environment. Hence the mortgage finance business has been diminished. In light of the aforesaid, the Group has been closely monitored the loan portfolio and kept the loan loss to minimal.

Moreover, we note that the Comparables have adopted aggressive promotional campaigns which include extensive television and printed advertisements, co-operations with different partners such as transport service provider and mobile phone companies whereas the Group adopted relatively conservative approach on marketing campaign. As such, we were further advised by the Company that as a result of the abovementioned competition and extensive marketing efforts of its competitors, the loan portfolio of the Group has been ever decreasing since 2000.

On the other hand, we have examined the provision for doubtful debts of the Group and note that provisions for doubtful debts for each of the three years ended 31 December, 2004 and six months ended 30 June, 2005 charged against the profit and loss account of the Company were minimal.

Having considered the diminishing mortgage finance business of the Group and the loss of the Group recorded for the six months ended 30 June, 2005 and from the sole perspective of assessment of the Offer Price with respect to the net asset value, we consider that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

### **(v) Intention of the Offeror regarding the future prospects of the Group**

- *Business*

As set out in the letter from SHK (the "Letter from SHK") in the Offer Document, the Offeror has no intention to introduce any major change to the business of the Group. It is the intention of the Offeror to maintain the existing business activities of the Group, in particular its mortgage finance business, through the use of the Company's brand name. There is no plan to inject any business of the Allied Group into the Group. Nor is there any intention to re-deploy the employees or the fixed assets of the Group other than as required in its ordinary course of business.

## LETTER FROM PARTNERS CAPITAL

Following completion of the acquisition of the Sale Shares, the Allied Group is in a position to streamline its loan and finance business into two arms, with the Allied Group continuing its business of the provision of consumer finance and the Group continuing to focus on the provision of mortgage finance and other secured finance, thereby expanding its overall market share with the ability to provide a wide range of financial products and other related services. The Offeror is optimistic about the business of the Group. It is believed that the Group will continue to strive to develop its business in relation to the provision of mortgage finance and other secured finance.

- *Directors and management*

As set out in the Letter from SHK, the existing executive directors of the Company (namely, Mr. David T. Yeh, Mr. Jark Pui Lee, Mr. Jonathan Miles Foxall and Mr. Tai Chiu Ng), the existing non-executive directors of the Company (namely, Mr. Ning Gaoning, Mr. Leon Nim Leung Chan and Mr. Wai Lam Chan) and the existing independent non-executive directors of the Company (namely, Dr. Nai Kong Leung, Mr. Victor Ha Kuk Yung and Mr. King Fai Tsui) are expected to resign as directors with effect from the Closing Date in full compliance with Rule 7 of the Takeovers Code.

The Offeror has nominated Mr. Edwin Lo King Yau, Mr. Akihiro Nagahara and Mr. Stephen Lo Kam Fai as executive directors of the Company. Such appointments will not take effect earlier than the date of posting of the response document of the Company, subject to the requirements under the Takeovers Code. Although the proposed Directors (except Mr. Edwin Lo King Yau) as nominated by the Offeror have not held any directorship in listed companies in Hong Kong in the past, we note that the proposed executive Directors are equipped with extensive experience in the mortgage finance business and financial industry in general. Furthermore, there is no plan to re-deploy the employees of the Group other than as required in its ordinary course of business.

Notwithstanding the above, we consider that it is uncertain as to the impact of the intended resignations of all the existing Directors from the Board and the proposed change in the composition of the Board on the business operation of the Group.

**(vi) Maintaining the listing status of the Company**

As set out in the Letter from SHK, it is the intention of the Offeror to maintain listing of the Shares on the Stock Exchange. Appropriate steps will be taken as soon as possible following closing of the Offer to ensure that not less than 25 per cent. of the Shares will be held in public hands.

## LETTER FROM PARTNERS CAPITAL

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued shares of the Company, are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the Shares.

The Stock Exchange has also stated that, if the Company remains a listed company, any future injection of assets into or disposal of assets of the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has discretion to require the Company to issue a circular to its shareholders where any acquisition or disposal by the Company is proposed, irrespective of the size of such acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

### RECOMMENDATION

Having considered the principal factors set out above, in particular, the following:

- (i) the Offer Price represents a premium of 7.19% over the closing price of HK\$1.02 per Share as quoted on the Stock Exchange on 17 June, 2005, being the last trading day prior to the day on which the Offeror announced the conditional acquisition of the Sale Shares;
- (ii) a premium of approximately 43.48% over the average closing price of HK\$0.762 per Share as quoted on the Stock Exchange for the last 10 trading days ended on 17 June, 2005;
- (iii) a premium of approximately 52.27% over the average closing price of HK\$0.718 per Share as quoted on the Stock Exchange for the last 20 trading days ended on 17 June, 2005;
- (iv) the price/earnings multiple represented by the Offer Price of 29.5 times lies well above the range of the Comparables; and
- (v) the Offer Price represents a premium of approximately 14.96% over the unaudited consolidated net tangible asset value as at 30 June, 2005 of HK\$0.951 per Share falls within the range of the Comparables,

## LETTER FROM PARTNERS CAPITAL

we consider that the Offer is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend to the Independent Shareholders to accept the Offer.

Independent Shareholders are reminded that they should carefully closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer.

Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Letter from SHK in the Offer Document and are strongly advised that the decision to realise or to hold their investment in the Shares is subject to individual circumstances and investment objectives.

Yours faithfully,

For and on behalf of

**Partners Capital International Limited**

**Alan Fung**

*Managing Director*

**Harry Yu**

*Director*

# APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

## 1. SUMMARY OF FINANCIAL INFORMATION

Set out below are the summary of the financial information extracted from the unaudited consolidated financial statements of the Group for the six months ended 30 June, 2005 and the audited consolidated financial statements of the Group for the three financial years ended 31 December, 2004 regarding (a) the consolidated profit and loss account and (b) the consolidated balance sheet of HKBLA.

### (a) Consolidated Profit and Loss Account

	Six months ended 30 June, 2005 <i>HK\$'000</i> <i>(Unaudited)</i>	Six months ended 30 June, 2004 <i>HK\$'000</i> <i>(Unaudited)</i>	Years ended 31 December,		
			2004 <i>HK\$'000</i> <i>(Audited)</i>	2003 <i>HK\$'000</i> <i>(Audited)</i>	2002 <i>HK\$'000</i> <i>(Audited)</i>
Turnover	67,999	177,603	189,682	74,390	90,476
Cost of sales	(65,010)	(163,142)	(173,426)	(70,517)	(85,392)
<b>Gross profit</b>	<b>2,989</b>	<b>14,461</b>	<b>16,256</b>	<b>3,873</b>	<b>5,084</b>
Other revenue	201	72	91	348	991
Administrative expenses	(1,365)	(1,624)	(2,938)	(3,284)	(3,667)
Other operating expenses	(1,060)	(409)	(2,210)	(394)	(1,558)
Exchange gains/(losses), net	(2,789)	(574)	2,194	(199)	103
Unrealised holding gain/(loss) on other investments in securities	-	(3,537)	(622)	4,585	(17,286)
Provision for impairment in value for investment securities	-	(1,956)	(3,600)	(4,198)	-
<b>Profit/(Loss) before tax</b>	<b>(2,024)</b>	<b>6,433</b>	<b>9,171</b>	<b>731</b>	<b>(16,333)</b>
Tax	-	(467)	(886)	4,282	-
<b>Profit/(Loss) for the period/year</b>	<b>(2,024)</b>	<b>5,966</b>	<b>8,285</b>	<b>5,013</b>	<b>(16,333)</b>
<b>Attributable to:</b>					
Equity holders of the Company	(2,024)	5,966	8,285	5,013	(16,333)
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Earnings/(Loss) per share</b>					
Basic	(0.90)	2.65	3.7	2.2	(7.3)
Diluted	N/A	N/A	N/A	N/A	N/A

*Note:* During the six months ended 30 June, 2005 and 2004 and three years ended 31 December, 2004, there were no extraordinary or exceptional items nor any minority interests and dividends.

**APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA**

**(b) Consolidated Balance Sheet**

	As at 30 June, 2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Audited)	As at 31 December, 2003 HK\$'000 (Audited)		2002 HK\$'000 (Audited)
<b>ASSETS</b>					
NON-CURRENT ASSETS					
Fixed assets	42	52	3		3
Mortgage loans	850	1,764	2,846		6,778
Investment securities	–	–	3,600		7,798
Deferred tax asset	3,396	3,396	4,282		–
	<u>4,288</u>	<u>5,212</u>	<u>10,731</u>		<u>14,579</u>
CURRENT ASSETS					
Financial assets at fair value through profit or loss	41,553	–	–		–
Other investments in securities	–	45,334	86,069		22,394
Mortgage loans	558	1,288	2,141		4,139
Prepayments, deposits and other receivables	322	741	6,491		797
Cash and bank balances	171,774	168,144	107,163		165,798
	<u>214,207</u>	<u>215,507</u>	<u>201,864</u>		<u>193,128</u>
CURRENT LIABILITIES					
Creditors and accruals	1,144	1,344	1,505		1,630
<b>NET CURRENT ASSETS</b>	<u>213,063</u>	<u>214,163</u>	<u>200,359</u>		<u>191,498</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u><u>217,351</u></u>	<u><u>219,375</u></u>	<u><u>211,090</u></u>		<u><u>206,077</u></u>
CAPITAL AND RESERVE					
Equity attributable to equity holders of the Company					
Share capital	225,000	225,000	225,000		225,000
Reserve	(7,649)	(5,625)	(13,910)		(18,923)
	<u>217,351</u>	<u>219,375</u>	<u>211,090</u>		<u>206,077</u>

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION REGARDING HKBLA</b>
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**2. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE, 2005**

**Condensed Consolidated Profit and Loss Account**

		<b>Six months ended</b>	
		<b>30 June,</b>	
		<b>2005</b>	<b>2004</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	4	67,999	177,603
Cost of sales		(65,010)	(166,679)
<b>Gross profit</b>		2,989	10,924
Other income		201	72
Administrative expenses		(1,365)	(1,624)
Other operating expenses		(3,849)	(983)
Provision for impairment in value for investment securities		–	(1,956)
<b>Profit/(Loss) before tax</b>	5	(2,024)	6,433
Tax	6	–	(467)
<b>Profit/(Loss) for the period</b>		(2,024)	5,966
<b>Attributable to:</b>			
Equity holders of the Company		(2,024)	5,966
		<i>HK cents</i>	<i>HK cents</i>
<b>Earnings/(Loss) per share</b>	7		
Basic		(0.90)	2.65
Diluted		N/A	N/A

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION REGARDING HKBLA</b>
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**Condensed Consolidated Balance Sheet**

		30 June, 2005	31 December, 2004
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		42	52
Mortgage loans	8	850	1,764
Deferred tax asset		3,396	3,396
		4,288	5,212
<b>CURRENT ASSETS</b>			
Financial assets at fair value			
through profit or loss	9	41,553	–
Other investments in securities	10	–	45,334
Mortgage loans	8	558	1,288
Debtors, prepayments and deposits		322	741
Cash and cash equivalents		171,774	168,144
		214,207	215,507
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		1,144	1,344
		213,063	214,163
<b>NET CURRENT ASSETS</b>			
<b>TOTAL ASSETS LESS</b>			
CURRENT LIABILITIES		217,351	219,375
<b>CAPITAL AND RESERVE</b>			
Equity attributable to equity holders of the Company			
Share capital	11	225,000	225,000
Reserve	12	(7,649)	(5,625)
		217,351	219,375



**Condensed Consolidated Summary Statement of Changes in Equity**

	Six months ended 30 June,	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Total equity as at 1 January	219,375	211,090
Profit/(Loss) for the period and total recognised income and expense for the period	(2,024)	5,966
Total equity as at 30 June	217,351	217,056
Total recognised income and expense for the period attributable to:		
Equity holders of the Company	(2,024)	5,966

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION REGARDING HKBLA</b>
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**Condensed Consolidated Cash Flow Statement**

	<b>Six months ended</b>	
	<b>30 June,</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net cash from operating activities</b>	3,632	51,188
<b>Net cash used in investing activities</b>	(2)	(60)
<b>Net increase in cash and cash equivalents</b>	3,630	51,128
Cash and cash equivalents at 1 January	168,144	107,163
<b>Cash and cash equivalents at 30 June</b>	171,774	158,291
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash and bank balances	171,774	158,291

**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 Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in the preparation of this condensed consolidated interim financial statements are consistent with those adopted in the audited financial statements for the year ended 31 December, 2004 except that the Group has changed certain of its accounting policies following its adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, including HKASs and Interpretations) which are effective for accounting periods commencing on or after 1 January, 2005.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in Note 2 to the interim financial statements.

**2.      CHANGES IN ACCOUNTING POLICIES**

In 2005, the Group adopted the HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	“Presentation of Financial Statements”
HKAS 7	“Cash Flow Statements”
HKAS 8	“Accounting Policies, Changes in Accounting Estimates and Errors”
HKAS 10	“Events after the Balance Sheet Date”
HKAS 12	“Income Taxes”
HKAS 14	“Segment Reporting”
HKAS 16	“Property, Plant and Equipment”
HKAS 17	“Leases”
HKAS 18	“Revenue”
HKAS 19	“Employee Benefits”
HKAS 21	“The Effects of Changes in Foreign Exchange Rates”
HKAS 24	“Related Party Disclosures”
HKAS 27	“Consolidated and Separate Financial Statements”
HKAS 32	“Financial Instruments: Disclosure and Presentation”
HKAS 33	“Earnings Per Share”
HKAS 34	“Interim Financial Reporting”
HKAS 36	“Impairment of Assets”
HKAS 37	“Provisions, Contingent Liabilities and Contingent Assets”
HKAS 39	“Financial Instruments: Recognition and Measurement”
HKFRS 3	“Business Combinations”

The adoption of HKASs 1, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 24, 27, 33, 34, 36, 37 and HKFRS 3 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments which include investments in securities and mortgage loans of the Group.

Until 31 December, 2004, investments in securities of the Group were classified into investment securities and other investments in securities, which were stated in the balance sheet at cost less any impairment losses and at fair value, respectively. Any impairment losses on investment securities and changes in fair value of other investments in securities were recognised in the profit and loss account for the period in which they arise. Mortgage loans were reported on the balance sheet at the total of principal amount outstanding and accrued interest receivable net of provisions for doubtful debts.

From 1 January, 2005 onwards, the Group classifies its investments into the following categories, taking into account the purpose for which the investments are acquired:

**(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss of the Group are financial assets held for trading. Derivatives are also categorised as held for trading unless they are designated as hedges. Purchases and sales of these investments are recognised on trade date. They are carried at fair value by reference to published price quotations in active markets or, for unlisted investment funds, determined on the basis of their last net asset value per unit. Gain or loss arising from a change in fair value shall be recognised in the profit and loss account.

**(b) Mortgage loans**

Mortgage loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Purchases and sales of these investments are recognised on settlement date. They are recognised initially at fair value and subsequently carried at amortised costs using effective interest method, less any accumulated impairment losses. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed to the extent that such reversal shall not result in a carrying amount of the mortgage loan that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of such reversal shall be recognised in the profit and loss account.

Impairment provisions for loan advances assessed individually are calculated using a discounted cash flow analysis for the impaired advances. Collective assessment of impairment for individually insignificant items or items where no impairment has been identified on an individual basis is made using formula-based approaches or statistical methods. Impairment provisions for advances will be presented as individually assessed and collectively assessed instead of specific provisions and general provisions. There will be no significant change in the net charge for provisions to profit and loss account.

**(c) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. Purchases and sales of these investments are recognised on trade date. They are carried at fair value except for certain available-for-sale financial assets that do not have a published quoted price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. The impairment loss is charged to the profit and loss account for the period in which they arise.

The effect of the changes in accounting policies on these financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

- all investment securities of the Group as at 31 December, 2004 were redesignated into available-for-sale financial assets on 1 January, 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's investment securities as at 31 December, 2004 is the same as that for the available-for-sale financial assets; and
- all other investments in securities of the Group as at 31 December, 2004 were redesignated into financial assets at fair value through profit or loss on 1 January, 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's other investments in securities as at 31 December, 2004 is the same as that for the financial assets at fair value through profit or loss.

In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

# APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

## 3. SEGMENT INFORMATION

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

	<b>Six months ended 30 June, 2005</b>			
	<b>Mortgage finance</b>	<b>Treasury investments</b>	<b>Other</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	127	67,872	–	67,999
Other income	128	73	–	201
	<u>255</u>	<u>67,945</u>	<u>–</u>	<u>68,200</u>
Segment results	<u>196</u>	<u>97</u>	<u>–</u>	293
Unallocated corporate expenses				<u>(2,317)</u>
Loss before tax				(2,024)
Tax				<u>–</u>
Loss for the period				<u>(2,024)</u>

	<b>Six months ended 30 June, 2004</b>			
	<b>Mortgage finance</b>	<b>Treasury investments</b>	<b>Other</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	277	177,326	–	177,603
Other income	72	–	–	72
	<u>349</u>	<u>177,326</u>	<u>–</u>	<u>177,675</u>
Segment results	<u>349</u>	<u>10,073</u>	<u>(1,956)</u>	8,466
Unallocated corporate expenses				<u>(2,033)</u>
Profit before tax				6,433
Tax				<u>(467)</u>
Profit for the period				<u>5,966</u>

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

# APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

## 4. REVENUE/TURNOVER

All revenue for the period represents turnover generated from the principal activities of the Group, comprising 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:

	<b>Six months ended</b>	
	<b>30 June,</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mortgage finance:		
Interest on mortgage loans	127	277
Treasury investments:		
Interest on bank deposits	1,557	376
Sales of other investments in securities	–	175,971
Sales of financial assets at fair value through profit or loss	66,087	–
Dividend income	228	311
Other investment income	–	668
	<u>67,999</u>	<u>177,603</u>

## 5. PROFIT/(LOSS) BEFORE TAX

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

	<b>Six months ended</b>	
	<b>30 June,</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	(12)	(4)
Dividend income from listed investments	228	311
Net realised gain on disposal of financial assets at fair value through profit or loss:		
Listed	73	–
Unlisted	343	–
Net realised gain on other investments in securities:		
Listed	–	13,035
Net unrealised holding gain on financial assets at fair value through profit or loss:		
Listed	661	–
Net unrealised holding loss on other investments in securities:		
Listed	–	(3,333)
Unlisted	–	(204)
Other investment income:		
Listed	–	67
Unlisted	–	601
Exchange loss, net	<u>(2,789)</u>	<u>(574)</u>

## APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

### 6. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the current period. For the six months ended 30 June, 2004, tax charge represents utilisation of deferred tax asset recognised in prior years.

	Six months ended 30 June,	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong		
Deferred tax charge	–	467

### 7. EARNINGS/(LOSS) PER SHARE

#### (a) Basic earnings/(loss) per share

Basic earnings/(loss) per share for the period is calculated based on (i) the consolidated loss attributable to equity holders of the Company of HK\$2,024,000 (2004 – profit of HK\$5,966,000); and (ii) the weighted average number of 225,000,000 ordinary shares (2004 – 225,000,000 ordinary shares) in issue during the period.

#### (b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented for the periods ended 30 June, 2005 and 2004 as there were no dilutive potential ordinary shares.

### 8. MORTGAGE LOANS

	30 June, 2005	31 December, 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total mortgage loan balances, at amortised costs	1,583	3,517
Less: Allowance for loan impairment:		
– Collectively assessed	(29)	(62)
– Individually assessed	(146)	(403)
	1,408	3,052
Amounts due within one year classified as current assets	(558)	(1,288)
Non-current portion	850	1,764
Total mortgage loan balances, at fair value	1,408	3,052

### 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June, 2005	31 December, 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity securities, at market value:		
Hong Kong	41,553	–

# APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

## 10. OTHER INVESTMENTS IN SECURITIES

	<b>30 June, 2005</b>	<b>31 December, 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity securities, at market value:		
Hong Kong	–	6,154
Overseas	–	16,652
Unlisted investment funds, at fair value	–	22,528
	–	45,334
	–	45,334

## 11. SHARE CAPITAL

	<b>30 June, 2005</b>	<b>31 December, 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
300,000,000 (31 December, 2004 – 300,000,000) ordinary shares of HK\$1.00 each	300,000	300,000
	300,000	300,000
<i>Issued and fully paid:</i>		
225,000,000 (31 December, 2004 – 225,000,000) ordinary shares of HK\$1.00 each	225,000	225,000
	225,000	225,000

## 12. RESERVE

	<b>Accumulated losses</b>
	<i>HK\$'000</i>
As at 1 January, 2005	(5,625)
Loss for the period	(2,024)
As at 30 June, 2005	(7,649)

## 13. RELATED PARTY TRANSACTION

During the period, the Group paid rental expenses amounting to HK\$453,000 (2004 – HK\$334,000) 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 Hong Kong economy continued to expand at a brisk pace, with GDP grew distinctly by 6.5 per cent. in real terms for the first half of 2005, following 8.2 per cent. strong growth in 2004. Amid the improving labour market conditions and generally upbeat sentiment, domestic consumption picked up. Nevertheless, the Hong Kong's lending business continued to be affected by intense competition and rising operating costs.

**Results for the period**

Mortgage finance and treasury investments (which includes securities investment and other treasury activities) remained principal businesses of the Group, contributing a total revenue of HK\$68 million (2004 – HK\$178 million) for the six months ended 30 June, 2005. The Group recorded a loss for the period of HK\$2 million, as compared to last period's profit of HK\$6 million.

The decrease in revenue and the loss for the period were mainly due to decrease in securities trading activities and the profit arising therefrom.

With rising property prices, the quality of the Group's mortgage loan assets improved. Meanwhile, management continued to closely monitor over the portfolio so that loan loss was kept to a minimum. Given the intense competition in the lending market, the loan portfolio of the Group and the income generated from mortgage finance further reduced.

With tightened cost control, the Group's administrative expenses were 16 per cent. lower than that recorded in the last corresponding period. Included in the operating costs was a loss of HK\$2.8 million (2004 – HK\$0.6 million) arising from the exchange rate movements on the Group's foreign currency assets during the period.

**Financial position**

The Group's financial position remained strong and healthy over the period. As at 30 June, 2005, total assets of the Group amounted to HK\$218 million (31 December, 2004 – HK\$221 million), all of which (31 December, 2004 – 62 per cent.) were denominated in Hong Kong dollars or United States dollars. The exchange rate exposure was considered immaterial.

The Group did not have bank borrowings (31 December, 2004 – Nil) and none of its assets were subject to pledge (31 December, 2004 – Nil). At the balance sheet date, the Group had no material capital commitment or contingent liabilities outstanding (31 December, 2004 – Nil).

Taking into account the loss for the period, net asset value of the Group as at 30 June, 2005 reduced slightly to HK\$217 million (31 December, 2004 – HK\$219 million). The consolidated net asset value per share stood at HK\$0.97 (31 December, 2004 – HK\$0.98).

### **Changes in accounting policies**

The Group has adopted the new and revised Hong Kong Financial Reporting Standards which came into effect for accounting periods commencing on 1 January, 2005. It resulted in changes of the Group's accounting policies with details summarised in Note 2 to the interim financial statements. However, they had no significant impact on the Group's net asset value or results.

### **Staff and remuneration**

The Group had 16 (2004 – 13) employees as at 30 June, 2005 and total staff costs incurred during the period amounted to HK\$0.7 million (2004 – HK\$1.1 million). The Group offers competitive remuneration packages to its employees. Currently, no share option schemes for employees are implemented.

### **Outlook**

The Group expects that the growth pace of the local economy is likely to be moderate, stemming from the impacts of soaring oil prices and rising interest rates. Subject to the disposal of the controlling interest in the Company which is expected to take place on 12 September, 2005 and which will be followed by changes to the Board, the Group will continue its business on a prudent and cautious manner.

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**3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**Consolidated Profit and Loss Account**

*For the year ended 31 December, 2004*

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Turnover</b>	5	189,682	74,390
Cost of sales		<u>(173,426)</u>	<u>(70,517)</u>
<b>Gross profit</b>		16,256	3,873
Other revenue		91	348
Administrative expenses		(2,938)	(3,284)
Other operating expenses		(2,210)	(394)
Exchange gains/(losses), net		2,194	(199)
Unrealised holding gain/(loss) on other investments in securities		(622)	4,585
Provision for impairment in value for investment securities		<u>(3,600)</u>	<u>(4,198)</u>
<b>Profit before tax</b>	6	9,171	731
Tax	9	<u>(886)</u>	<u>4,282</u>
<b>Net profit from ordinary activities attributable to shareholders</b>	<i>10, 19</i>	<u><u>8,285</u></u>	<u><u>5,013</u></u>
		<i>HK cents</i>	<i>HK cents</i>
<b>Earnings per share</b>	<i>11</i>		
Basic		<u><u>3.7</u></u>	<u><u>2.2</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

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**Consolidated Balance Sheet**

*As at 31 December, 2004*

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	52	3
Mortgage loans	13	1,764	2,846
Investment securities	15	–	3,600
Deferred tax asset	16	3,396	4,282
		5,212	10,731
<b>CURRENT ASSETS</b>			
Other investments in securities	17	45,334	86,069
Mortgage loans	13	1,288	2,141
Prepayments, deposits and other receivables		741	6,491
Cash and bank balances		168,144	107,163
		215,507	201,864
<b>TOTAL ASSETS</b>		<b>220,719</b>	<b>212,595</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVE</b>			
Share capital	18	225,000	225,000
Reserve	19	(5,625)	(13,910)
		219,375	211,090
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		1,344	1,505
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>220,719</b>	<b>212,595</b>

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**Balance Sheet**

*As at 31 December, 2004*

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	52	3
Mortgage loans	13	1,764	2,846
Interests in subsidiaries	20	22,387	3,584
Deferred tax asset	16	3,396	4,282
		27,599	10,715
<b>CURRENT ASSETS</b>			
Other investments in securities	17	22,806	86,069
Mortgage loans	13	1,288	2,141
Prepayments, deposits and other receivables		300	6,050
Cash and bank balances		168,144	107,163
		192,538	201,423
<b>TOTAL ASSETS</b>		<b>220,137</b>	<b>212,138</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVE</b>			
Share capital	18	225,000	225,000
Reserve	19	(6,044)	(14,258)
		218,956	210,742
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		1,181	1,396
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>220,137</b>	<b>212,138</b>

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**Consolidated Summary Statement of Changes in Equity**

*For the year ended 31 December, 2004*

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity as at 1 January	211,090	206,077
Net profit from ordinary activities attributable to shareholders	<u>8,285</u>	<u>5,013</u>
Total equity as at 31 December	<u><u>219,375</u></u>	<u><u>211,090</u></u>

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**Consolidated Cash Flow Statement**

*For the year ended 31 December, 2004*

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	21	59,428	(61,501)
Interest received		1,618	2,869
<b>Net cash inflow/(outflow) from operating activities</b>		<b>61,046</b>	<b>(58,632)</b>
<b>Cash flows from investing activities</b>			
Payments to acquire fixed assets		(65)	(3)
<b>Net cash outflow from investing activities</b>		<b>(65)</b>	<b>(3)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		60,981	(58,635)
Cash and cash equivalents at beginning of the year		107,163	165,798
<b>Cash and cash equivalents at end of the year</b>		<b>168,144</b>	<b>107,163</b>
<b>Analysis of balances of cash and cash equivalents:</b>			
Cash and bank balances		168,144	107,163

**Notes to the accounts****1. CORPORATE INFORMATION**

The Company and its subsidiaries are principally engaged in investment holding, treasury investments and the provision of mortgage finance and other related services.

In the opinion of the Directors, the ultimate holding company of the Company is Lippo Cayman Limited which is incorporated in the Cayman Islands.

**2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December, 2004. The new HKFRSs may result in changes in the future as to how the Group’s financial performance and financial position are prepared and presented.

**3. PRINCIPAL ACCOUNTING POLICIES****(a) Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the Companies Ordinance and the Securities and Futures (Accounts and Audit) Rules. They have been prepared under the historical cost convention.

**(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December, 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**(c) Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company’s balance sheet at cost less any impairment losses.

**(d) Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use and its net selling price.



An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

**(e) Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rate used for this purpose is  $33\frac{1}{3}$  per cent.

**(f) Investment securities**

Investment securities are securities which are intended to be held on a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less provisions for impairment losses, on an individual investment basis. When such impairment losses have occurred, the carrying amounts of the securities are reduced to their fair values, as determined by the Directors and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairment losses cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

**(g) Other investments in securities**

Other investments in securities are those securities which are held for trading purpose, and are stated at fair value at the balance sheet date. Unrealised holding gains or losses arising from changes in fair value of the securities are dealt with in the profit and loss account in the period in which they arise. For unlisted investment funds where there is no quoted market price, fair value is determined on the basis of their last net asset value per unit.

**(h) Recognition of revenue**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

## APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

- (ii) dealings in securities and disposals of investments, on the transaction dates when the relevant contract notes are exchanged; and
- (iii) dividend income, when the shareholders' right to receive payment has been established.

**(i) Mortgage loans**

Mortgage loans are reported on the balance sheet at the total of principal amount outstanding and accrued interest receivable net of provisions for doubtful debts.

**(j) Provisions for doubtful debts**

A provision for doubtful debts is made when the Directors consider the recoverability of mortgage loan is in doubt. In addition, an amount has been set aside as a general provision. These provisions are deducted from "Mortgage Loans" on the balance sheet.

**(k) Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

**(l) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**(m) Foreign currency transactions**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

**(n) Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**(o) Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts, which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**(p) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**4. SEGMENT INFORMATION**

Segment information is presented by way of business segment as the primary reporting format and geographical segment as the secondary reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. In respect of geographical segment reporting, turnover is based on the location of customers, and assets and capital expenditure are based on the location of the assets. Description of the business segments is 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.

During the current and the prior years, there were no intersegment transactions.

## APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

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

### Business segment

#### Group

	2004			Total HK\$'000
	Mortgage finance	Treasury investments	Other	
	HK\$'000	HK\$'000	HK\$'000	
Turnover	482	189,200	–	189,682
Other revenue	91	–	–	91
	<u>573</u>	<u>189,200</u>	<u>–</u>	<u>189,773</u>
Segment results	<u>573</u>	<u>17,069</u>	<u>(3,600)</u>	14,042
Unallocated corporate expenses				<u>(4,871)</u>
Profit before tax				9,171
Tax				<u>(886)</u>
Net profit from ordinary activities attributable to shareholders				<u>8,285</u>
Segment assets	3,052	213,543	–	216,595
Unallocated assets				<u>4,124</u>
Total assets				<u>220,719</u>
Segment liabilities	522	128	–	650
Unallocated liabilities				<u>694</u>
Total liabilities				<u>1,344</u>
Other segment information:				
Net realised gain on disposal of other investments in listed securities	–	13,431	–	13,431
Unrealised holding loss on other investments in securities	–	(622)	–	(622)
Provision for impairment in value for investment securities	<u>–</u>	<u>–</u>	<u>(3,600)</u>	<u>(3,600)</u>

**APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA**

Group	2003			
	Mortgage finance	Treasury investments	Other	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	946	73,444	–	74,390
Other revenue	348	–	–	348
	<u>1,294</u>	<u>73,444</u>	<u>–</u>	<u>74,738</u>
Segment results	<u>1,593</u>	<u>7,512</u>	<u>(4,198)</u>	4,907
Unallocated corporate expenses				<u>(4,176)</u>
Profit before tax				731
Tax				<u>4,282</u>
Net profit from ordinary activities attributable to shareholders				<u>5,013</u>
Segment assets	4,987	198,888	3,600	207,475
Unallocated assets				<u>5,120</u>
Total assets				<u>212,595</u>
Segment liabilities	584	73	–	657
Unallocated liabilities				<u>848</u>
Total liabilities				<u>1,505</u>
Other segment information:				
Net realised gain on disposal of other investments in listed securities	–	334	–	334
Unrealised holding gain on other investments in securities	–	4,585	–	4,585
Provision for impairment in value for investment securities	<u>–</u>	<u>–</u>	<u>(4,198)</u>	<u>(4,198)</u>

No capital expenditure and depreciation for the above segments are presented as they are related to the corporate office.

**APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA**

**Geographical segment**

**Group**

	2004				Total HK\$'000
	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Japan HK\$'000	Other HK\$'000	
Revenue	88,132	57,584	30,994	13,063	189,773
Segment results	5,327	4,885	3,611	219	14,042
Segment assets	178,143	26,080	13,100	-	217,323
Unallocated assets					3,396
Total assets					<u>220,719</u>
Capital expenditure	<u>(65)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(65)</u>
	2003				
	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Japan HK\$'000	Other HK\$'000	Total HK\$'000
Revenue	66,117	8,621	-	-	74,738
Segment results	2,457	1,545	-	905	4,907
Segment assets	182,925	20,413	-	4,975	208,313
Unallocated assets					4,282
Total assets					<u>212,595</u>
Capital expenditure	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>

# APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

## 5. TURNOVER

Turnover 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 turnover of the Group by principal activity is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mortgage finance:		
Interest on mortgage loans	482	946
Treasury investments:		
Interest on bank deposits	1,136	1,923
Sale of other investments in securities	186,857	70,851
Dividend income	539	670
Other investment income	668	–
	189,682	74,390

## 6. PROFIT BEFORE TAX

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

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs		
Wages and salaries	(1,859)	(2,120)
Retirement benefit costs – <i>Note 8</i>	(33)	(48)
	(1,892)	(2,168)
Depreciation	(16)	(3)
Auditors' remuneration	(170)	(200)
Minimum lease payments under operating leases in respect of land and buildings	(669)	(721)
Net realised gain on disposal of other investments in listed securities	13,431	334

# APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

## 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, are as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Executive Directors:		
Directors' fees	60	155
Non-executive Directors:		
Directors' fees	391	215
	451	370

The number of Directors whose emoluments fell within the following band is as follows:

Emoluments band	Group	
	2004 Number of Directors	2003 Number of Directors
Nil – HK\$1,000,000	11	8

Emoluments paid to independent non-executive Directors amounted to HK\$61,000 (2003 – HK\$215,000) during the year.

There were no arrangements under which a Director waived or agreed to waive any emoluments.

The five highest paid individuals during the year included one (2003 – one) Director, details of whose emoluments are set out above. The emoluments of the remaining four (2003 – four) non-director highest paid individuals for the year disclosed pursuant to the Listing Rules are analysed by amount and designated band as set out below.

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	1,061	1,535
Retirement benefit costs	30	37
	1,091	1,572

Emoluments band	Group	
	2004 Number of individuals	2003 Number of individuals
Nil – HK\$1,000,000	4	4



## APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

### 8. RETIREMENT BENEFIT COSTS

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December, 2000. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to their fully vesting in such contributions, which can be used to reduce the amount of future employer contributions, in accordance with the rules of the Scheme.

During the year, no forfeited voluntary contributions were utilised to reduce the amount of employer contributions (2003 – Nil). The amount of forfeited voluntary contributions available to offset future employer contributions to the Scheme was not material at the year end. The retirement benefit costs charged to the profit and loss account represent contributions paid and payable by the Group to the scheme and amounted to HK\$33,000 (2003 – HK\$48,000).

### 9. TAX

No provision for Hong Kong profits tax has been made for the year as the Group had applied the tax loss brought forward from prior years to offset the estimated profits earned during the year. No provision for Hong Kong profits tax had been made in the prior year as the Group did not generate any assessable profits during that year.

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong		
Deferred tax charge/(credit) – <i>Note 16</i>	886	(4,282)

A reconciliation of the tax charge/(credit) applicable to profit before tax using the statutory rate for the country in which the Company and its subsidiaries are domiciled to the tax credit is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	9,171	731
Tax at the statutory tax rate of 17.5 per cent. (2003 – 17.5 per cent.)	1,605	128
Effect of different tax rates in other jurisdictions	630	209
Income not subject to tax	(1,978)	(1,353)
Expenses not deductible for tax	682	560
Tax losses from previous periods recognised	–	(3,826)
Adjustments in respect of current tax of previous periods	(53)	–
Tax charge/(credit) at the group's effective rate of 9.7 per cent. (2003 – 586 per cent.)	886	(4,282)

## APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

### 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders includes the profit for the year dealt with in the financial statements of the Company amounted to HK\$8,214,000 (2003 – HK\$5,093,000) as referred to in Note 19 to the financial statements.

### 11. 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\$8,285,000 (2003 – HK\$5,013,000); and (ii) the number of 225,000,000 ordinary shares (2003 – 225,000,000 ordinary shares) in issue during the year.

#### (b) Diluted earnings per share

No diluted earnings per share is presented for the years ended 31 December, 2003 and 2004 as there were no dilutive potential ordinary shares during these two years.

### 12. FIXED ASSETS

#### Group and Company

	<b>Motor vehicle, furniture and equipment</b> <i>HK\$'000</i>
<b>Cost:</b>	
At 1 January, 2004	282
Additions during the year	65
<b>At 31 December, 2004</b>	<b>347</b>
<b>Accumulated depreciation:</b>	
At 1 January, 2004	279
Provision for the year	16
<b>At 31 December, 2004</b>	<b>295</b>
<b>Net book value:</b>	
<b>At 31 December, 2004</b>	<b>52</b>
At 31 December, 2003	3

# APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

## 13. MORTGAGE LOANS

	<b>Group and Company</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total mortgage loan balances	3,517	5,479
<i>Less: Provision for doubtful debts – Note 14</i>		
– General	(62)	(102)
– Specific	(403)	(390)
	3,052	4,987
Amounts due within one year classified as current assets	(1,288)	(2,141)
Non-current portion	1,764	2,846

## 14. PROVISION FOR DOUBTFUL DEBTS

	<b>Group and Company</b>		
	<b>Specific</b>	<b>General</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January, 2003	277	514	791
Provision written back during the year	–	(299)	(299)
Transfer	113	(113)	–
	390	102	492
At 31 December, 2003 and 1 January, 2004	–	(27)	(27)
Provision written back during the year	13	(13)	–
Transfer	13	(13)	–
At 31 December, 2004	403	62	465

## 15. INVESTMENT SECURITIES

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity securities, at cost	7,798	7,798
Provision for impairment in value	(7,798)	(4,198)
	–	3,600

## 16. DEFERRED TAX ASSET

	<b>Group and Company</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	4,282	–
Deferred tax credited/(charged) to the profit and loss account for the year – Note 9	(886)	4,282
	3,396	4,282

## APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

Deferred tax asset has arisen from unused tax losses available for offsetting against future taxable profit.

The Group has deductible temporary differences and tax losses arising in Hong Kong of HK\$3,882,000 (2003 – HK\$16,361,000) and HK\$14,133,000 (2003 – HK\$3,356,000), respectively, that are available indefinitely for offsetting against future taxable profits of companies in which the losses arose. Deferred tax assets have not been recognised in respect of these deductible temporary differences and tax losses due to the unpredictability of future taxable income stream.

### 17. OTHER INVESTMENTS IN SECURITIES

	Group		Company	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity securities, at market value:				
Hong Kong	6,154	60,681	6,154	60,681
Overseas	16,652	25,388	16,652	25,388
Unlisted investment funds, at fair value	22,528	–	–	–
	<u>45,334</u>	<u>86,069</u>	<u>22,806</u>	<u>86,069</u>

### 18. SHARE CAPITAL

	Group and Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Authorised:</b>		
300,000,000 (2003 – 300,000,000) ordinary shares of HK\$1.00 each	<u>300,000</u>	<u>300,000</u>
<b>Issued and fully paid:</b>		
225,000,000 (2003 – 225,000,000) ordinary shares of HK\$1.00 each	<u>225,000</u>	<u>225,000</u>

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION REGARDING HKBLA</b>
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19. RESERVE

**Group**

	<b>Accumulated losses</b> <i>HK\$'000</i>
At 1 January, 2003	(18,923)
Profit for the year	<u>5,013</u>
At 31 December, 2003 and 1 January, 2004	(13,910)
Profit for the year	<u>8,285</u>
At 31 December, 2004	<u><u>(5,625)</u></u>

**Company**

	<b>Accumulated losses</b> <i>HK\$'000</i>
At 1 January, 2003	(19,351)
Profit for the year	<u>5,093</u>
At 31 December, 2003 and 1 January, 2004	(14,258)
Profit for the year	<u>8,214</u>
At 31 December, 2004	<u><u>(6,044)</u></u>

20. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	1	1
Due from subsidiaries	<u>66,576</u>	<u>44,333</u>
Provisions for impairments in values	<u>66,577</u> <u>(44,190)</u>	<u>44,334</u> <u>(40,750)</u>
	<u><u>22,387</u></u>	<u><u>3,584</u></u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

# APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

Particulars of subsidiaries as at 31 December, 2004 are as follows:

Name of company	Place of incorporation and operations	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company/Group		Principal activities
Galawin Limited	British Virgin Islands	US\$1	100	100	Securities investment
Sunshine Asia Limited	British Virgin Islands	US\$1	100	100	Investment holding
Winbest Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
AAM Investments Limited	British Virgin Islands	US\$1	–	100	Securities investment
Goldjade Investment Limited	Hong Kong	HK\$2	–	100	Securities investment
Smart Dragon Limited	British Virgin Islands	US\$1	–	100	Investment holding

## 21. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before tax to cash generated from/(used in) operations:

	Group	
	2004 HK\$'000	2003 HK\$'000
Profit before tax	9,171	731
Adjustments for:		
Interest income	(1,618)	(2,869)
Depreciation	16	3
Provision for impairment in value for investment securities	3,600	4,198
	11,169	2,063
Operating profit before working capital changes	11,169	2,063
Decrease in mortgage loans	1,935	5,930
Decrease/(Increase) in other investments in securities	40,735	(63,675)
Decrease/(Increase) in prepayments, deposits and other receivables	5,750	(5,694)
Decrease in creditors and accruals	(161)	(125)
	59,428	(61,501)
Cash generated from/(used in) operations	59,428	(61,501)

## APPENDIX I FINANCIAL INFORMATION REGARDING HKBLA

### 22. COMMITMENTS

The Group leases its office property under operating lease arrangements. The term of the lease is for a period of two years. At 31 December, 2004, the Group and the Company have total future minimum lease payments under non-cancellable operating lease fall due as follows:

	<b>Group and Company</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	56	668
In the second to fifth years, inclusive	–	56
	<u>56</u>	<u>724</u>

### 23. CONNECTED AND RELATED PARTY TRANSACTIONS

Listed out below are related party transactions disclosed in accordance with the Hong Kong Statement of Standard Accounting Practice 20 “Related Party Disclosures” issued by the Hong Kong Institute of Certified Public Accountants.

- (a) During the year, the Company paid rental expenses of HK\$669,000 (2003 – HK\$721,000) to Prime Power Investment Limited, a wholly-owned subsidiary of Lippo China Resources Limited (“LCR”) which in turn is the intermediate holding company of the Company, in respect of office premises let to the Company. The rental was determined by reference to open market rentals.
  
- (b) During the year, the Group through Lippo Securities Limited (“Lippo Securities”), a wholly-owned subsidiary of Hongkong Chinese Limited which in turn is a subsidiary of LCR, sold and purchased listed securities in the market. Commissions paid to Lippo Securities during the year amounted to HK\$803,000 (2003 – HK\$441,000). The commissions were in line with those offered by Lippo Securities to its customers.

The above transactions also constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 17 March, 2005.

**1. RESPONSIBILITY STATEMENT**

This offeree board circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offer and HKBLA.

The information contained in this offeree board circular other than those relating to the Offer or the Allied Group is supplied by the Directors who jointly and severally accept full responsibility for the accuracy of such information contained in this offeree board circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this offeree board circular have been arrived at after due and careful consideration and there are no other facts not contained in this offeree board circular, the omission of which would make any such statement in this offeree board circular misleading.

The information contained in this offeree board circular relating to the Offer and the Allied Group has been extracted or derived from the Offer Document. The Directors accept full responsibility for the correctness and fairness of the reproduction or presentation of such information but accept no further responsibility in respect of such information.

**2. SHARE CAPITAL OF HKBLA**

As at the Latest Practicable Date, the authorised capital of HKBLA was HK\$300,000,000, divided into 300,000,000 Shares of HK\$1.00 each, of which HK\$225,000,000, divided into 225,000,000 Shares, had been issued and were fully paid up. No Shares were issued between 31 December, 2004, being the end of the last financial year of HKBLA, and the Latest Practicable Date. All of the Shares in issue as at the Latest Practicable Date ranked pari passu in all respects with each other, including the rights in respect of capital, dividends and voting.

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities issued by HKBLA.

**3. DISCLOSURE OF INTERESTS****(1) Interests of the Directors**

As at the Latest Practicable Date, none of the Directors had any interest in the Shares of HKBLA. None of the Directors had any interest in the shares of the Offeror as at the Latest Practicable Date.



**(2) Directors' Service Contracts**

Details of the service contracts with HKBLA or its subsidiaries or associated companies in force for the Directors which have more than 12 months to run are set out below:

<b>Name of Director</b>	<b>Expiry date of contract</b>	<b>Amount of fixed remuneration</b>	<b>Amount of variable remuneration</b>
Dr. Nai Kong Leung	29 September, 2006	HK\$80,000 per annum	N/A
Mr. Victor Ha Kuk Yung	29 September, 2006	HK\$80,000 per annum	N/A
Mr. King Fai Tsui	29 September, 2006	HK\$80,000 per annum	N/A

For each of the above Directors (being the Company's independent non-executive Directors), the contract in question is with HKBLA. However, as indicated in the Offer Document, it is proposed that each of the above Directors will resign with effect from the Closing Date.

None of the Directors has entered into or amended any service contract with HKBLA or any of its subsidiaries or associated companies within six months before the commencement of the Offer Period.

**(3) Persons with interests or short positions in the Shares of HKBLA which are discloseable under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance**

As at the Latest Practicable Date, so far as is known to any Director or the chief executive of HKBLA, the following persons had, or were deemed or taken to have, an interest or short position in the Shares of HKBLA which would fall to be disclosed to HKBLA and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance:

Name	Number of Shares	Approximate percentage of HKBLA's issued share capital
<i>Substantial Shareholders (as defined under the Listing Rules):</i>		
The Offeror	173,099,333	76.93
Onspeed Investments Limited ("Onspeed")	173,099,333	76.93
United Asia Finance Limited ("UA Finance")	173,099,333	76.93
UAF Holdings Limited ("UAF Holdings")	173,099,333	76.93
AG Capital Holding Limited ("AG Capital")	173,099,333	76.93
Allied	173,099,333	76.93
Lee and Lee Trust	173,099,333	76.93
<i>Other persons required to disclose their interests (not being substantial Shareholders):</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") (now known as CITIC Group)	11,250,000	5.00

*Notes:*

- (i) The Offeror owned 173,099,333 Shares directly as beneficial owner. The Offeror was a wholly-owned subsidiary of Onspeed which in turn was a wholly-owned subsidiary of UA Finance. UA Finance was a 50.91 per cent. owned subsidiary of UAF Holdings. UAF Holdings was a wholly-owned subsidiary of AG Capital which in turn was a wholly-owned subsidiary of Allied. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust, and they together owned 39.45 per cent. interest in Allied.
- (ii) 11,250,000 Shares 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 56 per cent. owned subsidiary of CITIC.
- (iii) All the interests stated above represent long positions.

**(4) Arrangements affecting Directors**

- (a) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the Directors had a material personal interest.
- (b) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offer, and there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

**(5) Other Disclosure of Interests**

- (a) As at the Latest Practicable Date, HKBLA was not interested in any shares of the Offeror.
- (b) As at the Latest Practicable Date, no subsidiary of HKBLA or pension fund of HKBLA and its subsidiaries or adviser to HKBLA as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of Shares.
- (c) As at the Latest Practicable Date, no shareholding in HKBLA was managed on a discretionary basis by fund managers connected with HKBLA.
- (d) As at the Latest Practicable Date, no Directors were beneficially interested in any of the Shares or the shares of the Offeror.
- (e) As at the Latest Practicable Date, to the best knowledge of the Directors after making all reasonable enquiries, there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between HKBLA or any of its associates (by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code) and any other person.

**4. DEALING IN SHARES**

- (1) During the Relevant Period,
  - (a) none of the Directors had dealt for value in any securities of HKBLA; and
  - (b) neither HKBLA nor any of its Directors had dealt for value in the securities of the Offeror;
- (2) During the Offer Period and ending with the Latest Practicable Date,
  - (a) no subsidiary of HKBLA, pension funds of HKBLA or its subsidiaries or advisers to HKBLA as specified in class (2) of the definition of associate under the Takeovers Code had dealt for value in any securities of HKBLA;
  - (b) no fund manager connected with HKBLA who managed funds on a discretionary basis had dealt for value in any securities of HKBLA; and
  - (c) no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with HKBLA or with any person who is an associate of HKBLA by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code had dealt for value in any securities of HKBLA.

**5. LITIGATION**

The Group is not engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Group.

**6. MATERIAL CONTRACTS**

No material contract, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Group, has been entered into after the date two years preceding the commencement of the Offer Period.

**7. INDEBTEDNESS**

As at 30 June, 2005, no company in the Group had any bank borrowings or other similar indebtedness nor were any of their respective assets subject to pledges or similar encumbrances. Moreover, as at 30 June, 2005, no company in the Group had any material capital commitment or contingent liabilities outstanding.

**8. NO MATERIAL CHANGE**

Save as regards the information disclosed in the interim report for the six months ended 30 June, 2005 as contained in Appendix I, the Directors are not aware of any material changes in the financial or trading position or prospects of HKBLA since 31 December, 2004, being the date to which the latest published audited accounts were made up.

**9. EXPERTS**

The following is the qualification of the expert who has been named in this offeree board circular or who has given its opinion or advice as contained in this offeree board circular:

<b>Name</b>	<b>Qualification</b>
Partners Capital	A licensed corporation to carry on types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the Securities and Futures Ordinance

**10. CONSENT**

Partners Capital has given and has not withdrawn its written consent to the issue of this offeree board circular with the inclusion in this offeree board circular of the text of its letter and references to its name in the form and context in which they are included.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at the office of Richards Butler, legal adviser to HKBLA, at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong while the Offer remains open for acceptance.

- (a) the memorandum and articles of association of HKBLA;
- (b) the annual reports of HKBLA for the two years ended 31 December, 2004 and the interim report of HKBLA for the six months ended 30 June, 2005;
- (c) the letter of recommendation of the Independent Board Committee, the text of which is set out on page 9 of this offeree board circular;
- (d) the letter of advice from Partners Capital, the text of which is set out on pages 10 to 25 of this offeree board circular;
- (e) the written consent referred to in the paragraph headed "Consent" in Appendix II to this offeree board circular; and

- (f) the service contracts referred to in the paragraph headed “Directors’ Service Contracts” in Appendix II to this offeree board circular.

## 12. MISCELLANEOUS

- (a) The Secretary of HKBLA is Mr. Stephen Kam Fai Lo. He is a member of the Institute of Chartered Accountants of England and Wales and a fellow member of both The Chartered Association of Certified Accountants in the United Kingdom and The Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of HKBLA is situated at Room 2301, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong.
- (c) The share registrar of HKBLA is Tengis Limited, the office of which is situated at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English language text of this offeree board circular shall prevail over the Chinese language text.