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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)

**RESPONSE DOCUMENT RELATING TO
UNCONDITIONAL MANDATORY CASH OFFER BY
SOMERLEY LIMITED
FOR AND ON BEHALF OF
MERCURIUS PARTNERS INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES OF
THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
(OTHER THAN SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED
BY MERCURIUS PARTNERS INVESTMENTS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

*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 is set out on pages 5 to 8 of this offeree board circular.

A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Independent Shareholders is set out on pages 9 to 10 of this offeree board circular. A letter from Partners Capital to the Independent Board Committee, containing its advice in respect of the Offer is set out on pages 11 to 23 of this offeree board circular.

18th June, 2007

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EXPECTED TIMETABLE

Posting date of the Offer Document	Monday, 4th June, 2007
Opening date of the Offer	Monday, 4th June, 2007
Posting date of this offeree board circular	Monday, 18th June, 2007
Latest time and date for acceptance of the Offer	4:00 p.m. on Tuesday, 3rd July, 2007
Closing Date of the Offer (<i>Note 1</i>)	Tuesday, 3rd July, 2007
Announcement of the results of the Offer as at the Closing Date to be published on the website of the Stock Exchange	not later than 7:00 p.m. on Tuesday, 3rd July, 2007
Announcement of the results of the Offer as at the Closing Date to be published in the newspapers in Hong Kong	Wednesday, 4th July, 2007
Latest date for despatch of remittances in respect of the consideration for valid acceptances received under the Offer at or before the Closing Date (<i>Note 2</i>)	Friday, 13th July, 2007

Notes:

1. The latest time for the acceptances of the Offer is 4:00 p.m. on Tuesday, 3rd July, 2007. The Offer, which is unconditional, will close on Tuesday, 3rd July, 2007.
2. Remittances in respect of the cash consideration for valid acceptances received under the Offer will be posted to the accepting Shareholders by ordinary post at their own risk as soon as possible, but in any event within ten days from the date of receipt of all the valid requisite documents by the Registrar from the accepting Shareholders.
3. Acceptance of the Offer will be irrevocable and may not be withdrawn, except as permitted under the Takeovers Code.

All references in this offeree board circular to time are references to Hong Kong time.

DEFINITIONS

In this offeree board circular, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“AGL”	Allied Group Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange
“AGL Directors”	directors of AGL
“Agreement”	the sale and purchase agreement dated 11th May, 2007 made between Onspeed, UAF and the Offeror, relating to the sale and purchase of the Sale Share and the assignment of the Loan
“Announcement”	the joint announcement dated 16th May, 2007 issued by AGL, APL, SHK and HKBLA in relation to, amongst other things, the Offer
“APL”	Allied Properties (H.K.) Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of the Stock Exchange, and a non wholly-owned subsidiary of AGL
“APL Directors”	directors of APL
“APL Group”	APL and its subsidiaries
“associates”	has the meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“B.V.I.”	British Virgin Islands
“CCASS”	Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Closing Date”	3rd July, 2007
“Completion”	completion of the sale and purchase of the Sale Share contemplated under the Agreement

DEFINITIONS

“Executive”	Executive Director of the Corporate Finance Division of the SFC, or any delegate of the Executive Director
“Form of Acceptance”	the form of acceptance and transfer in respect of the Offer Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKBLA”	The Hong Kong Building and Loan Agency Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange, and a direct non wholly-owned subsidiary of INFL
“HKBLA Directors”	directors of HKBLA
“HKBLA Group”	HKBLA and its subsidiaries
“HKBLA Shares”	shares of nominal value of HK\$1.00 each in the share capital of HKBLA
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board comprising Mr. Chan Bo Ching, Mr. Li Chak Hung and Mr. Yuen Wai Ho, all of whom are independent non-executive Directors of the Company, established to advise the Independent Shareholders in respect of the Offer
“Independent Shareholders”	shareholders of HKBLA other than the Offeror and parties acting in concert with it
“INFL”	Island New Finance Limited, a company incorporated in the B.V.I. with limited liability
“Latest Practicable Date”	15th June, 2007, being the latest practicable date prior to the printing of this offeree board circular for the purpose of ascertaining certain information contained in this offeree board circular
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Loan”	the shareholder’s loan of HK\$192,852,975 advanced by Onspeed to INFL
“Offer”	the unconditional mandatory cash offer for all the issued shares in HKBLA other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it in accordance with the Takeovers Code
“Offer Document”	the document dated 4th June, 2007 issued by Somerley Limited on behalf of the Offeror to the shareholders of HKBLA in accordance with the Takeovers Code containing, amongst other things, details of the Offer and the related forms of acceptance
“Offer Period”	the period from 14th May, 2007, when the announcement dated 14th May, 2007 was issued by the Offeror in respect of the possibility of the Offer, to 3rd July, 2007, the date when the Offer closes for acceptances
“Offer Shares”	HKBLA Shares in respect of which the Offer is made, being HKBLA Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it
“Offeror”	Mercurius Partners Investments Limited, a company incorporated in the B.V.I. with limited liability and is a wholly-owned subsidiary of Mercurius Partners, LLP which is in turn wholly and beneficially owned by family members of Mr. John Zwaanstra and a trust and the sole initial beneficiary thereof is wholly and beneficially owned by Mr. John Zwaanstra
“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 SFO and the independent financial adviser to the Independent Board Committee in relation to the Offer
“Registrar”	Tengis Limited, at Level 25, Three Pacific Place, 1 Queen’s Road East, Hong Kong, being the share registrar of HKBLA for receiving and processing acceptances of the Offer in respect of the Offer Shares

DEFINITIONS

“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 Share”	one share of US\$1.00 in the issued share capital of INFL, representing the entire issued share capital of INFL
“SFC”	Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SHK”	Sun Hung Kai & Co. Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of the Stock Exchange, and a non wholly-owned subsidiary of APL
“SHK Directors”	directors of SHK
“SHK Group”	SHK and its subsidiaries
“Somerley”	Somerley Limited, the financial adviser to the Offeror
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Code on Takeovers and Mergers
“UAF”	United Asia Finance Limited, a company incorporated in Hong Kong with limited liability, and an indirect non wholly-owned subsidiary of SHK



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)

Executive Directors:

Mr. Akihiro Nagahara (*Chairman*)

Mr. Stephen Lo Kam Fai (*Chief Executive*)

Mr. Poon Mo Yiu

Registered office:

Room 2101

21st Floor

Allied Kajima Building

138 Gloucester Road

Wanchai, Hong Kong

Independent non-executive Directors:

Mr. Chan Bo Ching

Mr. Li Chak Hung

Mr. Yuen Wai Ho

18th June, 2007

To the Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
SOMERLEY LIMITED
FOR AND ON BEHALF OF
MERCURIUS PARTNERS INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES OF
THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
(OTHER THAN SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED
BY MERCURIUS PARTNERS INVESTMENTS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

On 16th May, 2007, AGL, APL, SHK and HKBLA jointly announced, amongst other things, that the Agreement was entered into on 11th May, 2007, between Onspeed, UAF and the Offeror pursuant to which Onspeed had conditionally agreed to sell the Sale Share (representing the entire issued share capital of INFL) and assign the Loan, and the Offeror had conditionally agreed to purchase the Sale Share and accept the assignment of the Loan, at an aggregate consideration of HK\$248,903,319.

LETTER FROM THE BOARD

Completion of the sale and purchase of the Sale Share took place on 31st May, 2007 in accordance with the provisions of the Agreement. Immediately following completion of the sale and purchase of the Sale Share, the Offeror and parties acting in concert with it, through their interests in INFL, was interested in approximately 74.999 per cent. of the issued share capital of HKBLA as at the Latest Practicable Date. As a result of completion of the sale and purchase of the Sale Share, the Offeror is required under Rule 26.1 of the Takeovers Code to make the Offer (being an unconditional mandatory cash offer) to acquire all the issued shares in HKBLA other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it. The Offer has now been made by Somerley, 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.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee has been established to advise the Independent Shareholders in respect of the Offer. The Independent Board Committee is comprised of the independent non-executive Directors, namely, Mr. Chan Bo Ching, Mr. Li Chak Hung and Mr. Yuen Wai Ho, who are independent of and not acting in concert with the Offeror and parties acting in concert with it.

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, amongst other things, information relating to HKBLA, the letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders on the Offer, and the letter from Partners Capital containing its advice to the Independent Board Committee in respect of the Offer.

THE OFFER

The Offer is being made by Somerley on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each HKBLA Share HK\$1.475 in cash

The HKBLA Shares to be acquired under the Offer shall be fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date of the Agreement, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of the Agreement.

Comparison of value

The offer price of HK\$1.475 per HKBLA Share represents:

- (i) a discount of approximately 35.9 per cent. to the closing price of HK\$2.30 per HKBLA Share as quoted on the Stock Exchange on the last trading day of the HKBLA Shares immediately before the date of the Announcement;

LETTER FROM THE BOARD

- (ii) a discount of approximately 34.7 per cent. to the average closing price of approximately HK\$2.26 per HKBLA Share as quoted on the Stock Exchange for the five trading days up to and including the last trading day of the HKBLA Shares immediately before the date of the Announcement;
- (iii) a discount of approximately 35.8 per cent. to the average closing price of approximately HK\$2.296 per HKBLA Share as quoted on the Stock Exchange for the ten trading days up to and including the last trading day of the HKBLA Shares immediately before the date of the Announcement;
- (iv) a premium of approximately 43.2 per cent. over the audited consolidated net asset value of approximately HK\$1.03 per HKBLA Share (calculated based on the audited consolidated net asset value of approximately HK\$231.9 million and 225,000,000 HKBLA Shares in issue as at 31st December, 2006 as shown in the annual report of HKBLA for the financial year ended 31st December, 2006).

Stamp duty

Seller's ad valorem stamp duty at a rate of 0.1 per cent. of the market value of the HKBLA Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the consideration payable to the relevant shareholders of HKBLA who accept the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty in connection with the transfer of the HKBLA Shares accepted under the Offer.

Total consideration

On the basis of the offer price of HK\$1.475 per HKBLA Share, the entire issued share capital of HKBLA of 225,000,000 HKBLA Shares is valued at approximately HK\$331.9 million. There are 56,251,987 HKBLA Shares subject to the Offer and the Offer is valued at approximately HK\$83.0 million.

Maintaining the listing status of HKBLA

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 issued HKBLA Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the HKBLA Shares; or (ii) there are insufficient HKBLA Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the HKBLA Shares.

According to the Offer Document, it is the intention of the Offeror to maintain the listing of the HKBLA Shares on the Main Board of the Stock Exchange after the close of the Offer. The directors of the Offeror and the proposed directors of HKBLA to be nominated by the Offeror and appointed to the board of directors of HKBLA will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the HKBLA Shares.

LETTER FROM THE BOARD

INTENTION OF THE OFFEROR REGARDING THE HKBLA GROUP

The Offeror intends that the HKBLA Group will continue its existing principal activities after the close of the Offer. The Offeror will conduct a review of the business operations and financial position of the HKBLA Group after Completion with a view to formulating a business plan and strategy suitable for the HKBLA Group. At the same time, the Offeror will evaluate any and all other options, including but not limited to expanding the current financial services business of HKBLA, commencing real estate development business or expanding into other businesses on an opportunistic basis. Subject to the resolute of the review, the Offeror has no intention to re-deploy the employees or the fixed assets of the HKBLA Group by reason only of the Offer and other than in its ordinary course of business.

ADDITIONAL INFORMATION

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

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 9 to 10 of this offeree board circular, which contains its recommendation to the Independent Shareholders in respect of the Offer, and the letter from Partners Capital to the Independent Board Committee set out on pages 11 to 23 of this offeree board circular, which contains its advice to the Independent Board Committee in respect of the fairness and reasonableness of the Offer and the principal factors considered by it in arriving at its opinions and recommendations.

On behalf of the Board
The Hong Kong Building and Loan Agency Limited
Stephen Lo Kam Fai
Executive Director



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)

To the Independent Shareholders

Dear Sir or Madam,

18th June, 2007

**UNCONDITIONAL MANDATORY CASH OFFER BY
SOMERLEY LIMITED
FOR AND ON BEHALF OF
MERCURIUS PARTNERS INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES OF
THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
(OTHER THAN SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED
BY MERCURIUS PARTNERS INVESTMENTS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

We refer to the offeree board circular issued by HKBLA to its shareholders dated 18th June, 2007 (the “offeree board circular”) of which this letter forms part. Terms defined in the offeree board circular shall have the same meanings when used herein 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 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 the offeree board circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 HKBLA Shares.

Yours faithfully,

For and on behalf of

The Independent Board Committee

Mr. Chan Bo Ching Mr. Li Chak Hung Mr. Yuen Wai Ho

Independent non-executive Directors

LETTER FROM PARTNERS CAPITAL



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

Partners Capital International Limited
Unit 3906, 39/F, COSCO Tower
183 Queen's Road Central
Hong Kong

18th June, 2007

To the Independent Board Committee

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFER BY
SOMERLEY LIMITED
FOR AND ON BEHALF OF
MERCURIUS PARTNERS INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES OF
THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
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AND PARTIES ACTING IN CONCERT WITH IT)**

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 18th June, 2007, in which this letter is reproduced, has been despatched by HKBLA 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"), UAF and the Offeror entered into the Agreement, pursuant to which Onspeed has conditionally agreed to sell the Sale Share (representing the entire issued share capital of INFL) and assign the Loan, and the Offeror has conditionally agreed to purchase the Sale Share and accept the assignment of the Loan, at an aggregate consideration of HK\$248,903,319. Completion of the Agreement took place on 31st May, 2007.

As at the Latest Practicable Date, there were a total of 225,000,000 HKBLA Shares in issue. HKBLA does not have any other securities in issue. Immediately following completion of the sale and purchase of the Sale Share, the Offeror and parties acting in concert with it, through their interests in INFL, is interested in approximately 74.999 per cent. of the issued share capital of HKBLA as at the date of the Announcement. Subject to completion of the sale and purchase of the Sale Share, the Offeror will be required under Rule 26.1 of the Takeovers Code to make the Offer (being an unconditional mandatory cash offer) to acquire all the issued shares in HKBLA other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

LETTER FROM PARTNERS CAPITAL

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

For each Offer Share HK\$1.475 in cash

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

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 HKBLA 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 HKBLA Group, the Offeror, UAF, AGL, APL, SHK, Onspeed, Penta 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 and position

The principal business activities of the HKBLA Group are investment holding, treasury investments and the provision of mortgage finance and other related services.

LETTER FROM PARTNERS CAPITAL

Based on information set out in the annual reports of the Company, we summarise the audited consolidated results of the HKBLA Group for the three most recent financial years as follows:

	For the year ended		
	31st December,		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	189,682	73,559	61,516
Interest income	1,618	4,289	7,776
Net gain on sales of/Fair value gain on held-for-trading investments	12,809 ^(Note)	3,226	6,732
Other investment income	1,207	937	1,221
Exchange gains/(losses)	2,194	(2,789)	–
Operating expenses	(5,148)	(4,629)	(3,856)
Net profit attributable to			
Shareholders	8,285	1,235	11,271
Dividend	0	0	0

Note: Gain on disposal of other investments in securities

As illustrated in the above summary, the HKBLA Group's revenue experienced a downward trend for the three years ended 31st December, 2006 on a consecutive basis. Although the HKBLA Group managed to improve both the interest income and the operating expenses during the three years ended 31st December, 2006, the net profit attributable to Shareholders fluctuated during the same three-year period (along with the fluctuating contributions from (i) the held-for-trading investments; (ii) the other investment income; and (iii) exchange gains/(losses)). No dividend was ever declared for the three years ended 31st December, 2006.

We note that the total revenue comprised primarily sales proceeds from held-for-trading investments for each of the three years ended 31st December, 2006 (2004: HK\$186,857,000; 2005: HK\$68,333,000; 2006: HK\$52,519,000), representing as to about 98.5%, 92.9% and 85.4% of the total revenue of the HKBLA Group respectively. The balance of the total revenue of the HKBLA Group comprised (i) the interest income (mostly from (a) interest on bank deposits attributable to treasury investments segment, and to a much lesser extent from (b) interest on mortgage loans); and (ii) the other investment income (attributable to treasury investments) for the three years ended 31st December, 2006. According to the revenue recognition policy of the Group for the year ended 31st December, 2006, dealing in securities and disposals of investments are recognised as revenue on the trade dates when the relevant contract notes are exchanged. As advised by the Directors, no revenue on the profit and loss statement would be recognised due solely to "buying" transactions for treasury investments of the HKBLA Group.

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

For the year ended 31st December, 2004, the HKBLA Group recorded a turnover of approximately HK\$189.7 million, representing a significant increase of approximately 115.3 per cent. as compared with that of the preceding financial year. For the same financial year, the HKBLA 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 HKBLA for the year ended 31st 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 HKBLA 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 HKBLA Group and the income generated from mortgage finance dropped further.

- *Audited consolidated results for the year ended 31st December, 2005*

For the year ended 31st December, 2005, the HKBLA Group recorded a turnover of approximately HK\$73.6 million, representing a significant reduction of approximately 61.2 per cent. as compared with that of the preceding financial year. For the same financial year, the HKBLA Group recorded a net profit attributable to Shareholders of HK\$1.2 million, representing a significant reduction of approximately 85.5 per cent. as compared with that of the preceding financial year.

According to the annual report of HKBLA for the year ended 31st December, 2005, the significant drop in turnover was mainly due to the significant decrease in securities trading activities of the treasury investments. However, the mortgage finance market remained competitive and interest margin continued to stay low as the property transaction volume was affected by the successive increases in interest rates in the market. The revenue contributed by mortgage finance dropped to HK\$0.2 million and profit contributed by mortgage finance also decreased to HK\$0.3 million. In addition, HKBLA recorded an exchange loss of HK\$2.8 million during the financial year ended 31st December, 2005.

LETTER FROM PARTNERS CAPITAL

- *Audited consolidated results for the year ended 31st December, 2006*

For the year ended 31st December, 2006, the HKBLA Group recorded a turnover of approximately HK\$61.5 million, representing a reduction of approximately 16.4 per cent. as compared with that of the preceding financial year. For the same financial year, the HKBLA Group recorded a net profit attributable to Shareholders of HK\$11.3 million, representing an increase of approximately 841.7 per cent. as compared with that of the preceding financial year.

According to the annual report of HKBLA for the year ended 31st December, 2006, the mortgage finance market still remained keenly competitive and interest margin continued to stay low reflecting the low level of the property transactions. The revenue contributed by mortgage finance increased to HK\$1.4 million and profit contributed by mortgage finance also increased to HK\$1.4 million. The revenue contributed by the treasury investments dropped as a result of decrease in securities trading activities. However, profit contributed by treasury investments increased to HK\$14.3 million.

- *Our further analysis and future outlook*

- *Balance sheet*

Based on information set out in the annual reports of HKBLA, we further summarise below the audited consolidated balance sheet of the HKBLA Group as at the two most recent financial year-end dates:

	As at 31st December, 2005 HK\$'000	As at 31st December, 2006 HK\$'000
Non-current assets	4,129	7,468
➤ Mortgage loans	723	4,839
➤ Deferred tax assets	3,396	2,612
Current assets	217,315	225,290
➤ Mortgage loans	4,457	3,906
➤ Held-for-trading investments	41,495	26,060
➤ Cash and bank balances	170,940	192,073
Current liabilities	834	877
➤ Other creditors and accruals	834	877
Equity attributable to Shareholders	220,610	231,881

As revealed in the above summary, on the assets' side, we note that "cash and cash equivalents" represented the largest asset item of the HKBLA Group (amounting to approximately HK\$192.1 million and constituting about 83% of net assets of the HKBLA Group as at 31st December, 2006). It follows that

“held-for-trading investments” represented the second largest asset item of the HKBLA Group (amounting to approximately HK\$26.1 million and constituting about 11% of net assets of the HKBLA Group as at 31st December, 2006). In turn, “mortgage loans” (non-current plus current) represented the third largest asset item of the HKBLA Group (amounting to approximately HK\$8.7 million and constituting about 4% of net assets of the HKBLA Group as at 31st December, 2006).

On the liabilities’ side, we note that no non-current liabilities nor bank indebtedness were recorded by the HKBLA Group as at 31st December, 2006. Meanwhile, the size of current liabilities recorded by the HKBLA Group as at 31st December, 2006 was insignificant. Further, according to the indebtedness statement as set out in the Document, we note that as at 30th April, 2007, no company in the HKBLA Group had any bank borrowings or other similar indebtedness, material capital commitment or contingent liabilities outstanding, nor were any of their respective assets subject to pledges or similar encumbrances.

➤ *Treasury investments segment*

Upon enquiry, we have reviewed the treasury investments portfolio of the HKBLA Group as at 30th April, 2007 as provided by the Directors. We have noted that such portfolio amounted to a fair value of approximately HK\$20.4 million, encompassing stocks solely listed on the Main Board of the Stock Exchange, a majority of which were blue chip stocks (as to about 48%) and China related enterprises (as to about 19%). The balance (as to about 33%) was mainly second-line stocks of industrial or conglomerate nature. We are not aware of any derivatives (including warrants, futures, options) under the treasury investments portfolio of the HKBLA Group as at 30th April, 2007.

Given that there are sizeable cash resources available in the HKBLA Group (amounting to approximately HK\$192.1 million as at 31st December, 2006), we reckon that the treasury investments portfolio of the HKBLA Group could be exposed to greater market risk if its equity portfolio is to be expanded. In this regard, we have enquired and were advised by the Directors that an Executive Committee (comprising all three executive Directors) has been responsible for the management of the treasury investments portfolio of the HKBLA Group. We were advised by the Directors that the Executive Committee intends not to materially scale up the investment in listed securities for the treasury investments portfolio of the HKBLA Group. Practically, we have been advised by the Directors that the underlying stocks under the treasury investments portfolio had actually been downsized subsequent to 30th April, 2007 and up to the Latest Practicable Date. On such basis and assuming that there is no material change of the above intention after the close of the Offer, we expect that the future performance of the treasury investments portfolio of the HKBLA Group would be generally in line with that of the Hong Kong stock market (in particular the Hang Seng Composite Index, to which as to about 75% of the underlying stocks under the treasury investments portfolio of the HKBLA as at 30th April, 2007 belonged).

➤ *Mortgage finance segment*

Upon enquiry, we have reviewed the mortgage finance portfolio of the HKBLA Group as at 30th April, 2007 as provided by the Directors. We have noted that such portfolio amounted to a fair value of approximately HK\$8.2 million, encompassing mortgage loans advanced to 12 owner-occupiers of aged private residential flats situated mostly in New Territories, secured mostly by way of first legal charge (as to HK\$6.6 million) and second legal charge (as to HK\$1.4 million). The pricing is based on either prime rate plus a margin (for first legal charge) or fixed interest rate (for second legal charge).

As advised by the Directors, despite the turnaround of the Hong Kong economy after SARS in 2003, the HKBLA Group has been facing keen competition from other financial institutions such as commercial banks and finance companies which may adopt more aggressive approaches towards higher risk loans. By contrast, the HKBLA Group has been taking in a prudent and conservative approach under its pricing policy for its mortgage products. Further, the market competitors 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 HKBLA Group adopted a relatively conservative approach on marketing campaign. For the year ended 31st December, 2006, each of the segment revenue and the segment net assets of the mortgage finance business of the HKBLA Group diminished by approximately 98% and 76% as compared with those for the year ended 31st December, 2000.

Upon further enquiry, we have been advised by the Directors that a Credit Committee (comprising the Chairman, the Chief Executive and the Assistant General Manager) has been responsible for the management of the mortgage loan portfolio of the HKBLA Group. Notwithstanding that there are sizeable cash resources available in the HKBLA Group (amounting to approximately HK\$192.1 million as at 31st December, 2006), we have been advised by the Directors that the Credit Committee intends not to materially scale up the size of the mortgage loan portfolio, by pursuing active marketing campaign and/or adopting aggressive pricing strategy or otherwise.

➤ *Conclusion*

Having reviewed the financial performance of the HKBLA Group for the past three years ended 31st December, 2006, we consider that the mortgage finance business segment of the HKBLA Group had been relatively insignificant and that the financial performance of the HKBLA Group depended mainly on its treasury investments segment which in turn is related to the performance of the stock market in Hong Kong.

Having considered that (i) the Offeror intends that the HKBLA Group will continue its existing principal activities after the close of the Offer; (ii) all the existing directors of HKBLA will resign after the close of the Offer and the

appointment of new directors has yet to be announced, and (iii) no concrete business strategy or expansion plans had been announced by the Offeror pending the result of its review of the business and financial affairs of the HKBLA Group, we consider that the future financial performance of the HKBLA Group will be uncertain as it is highly subject to the market value and composition of the underlying investment portfolio of the HKBLA Group from time to time as well as the future business strategy of the new management.

(ii) Share price performance and trading liquidity

The aggregate consideration for the sale and purchase of the Sale Share and the assignment of the Loan is HK\$248,903,319, comprising HK\$56,050,344 for the Sale Share and HK\$192,852,975 for the Loan. As discussed with the Directors and upon review of the Agreement, we note that the offer price of HK\$1.475 per HKBLA Share (the “Offer Price”) is the rounded up figure of the said aggregate consideration of HK\$248,903,319 as divided by a total of 168,748,013 Sale Share. The Offer Price represents respectively:

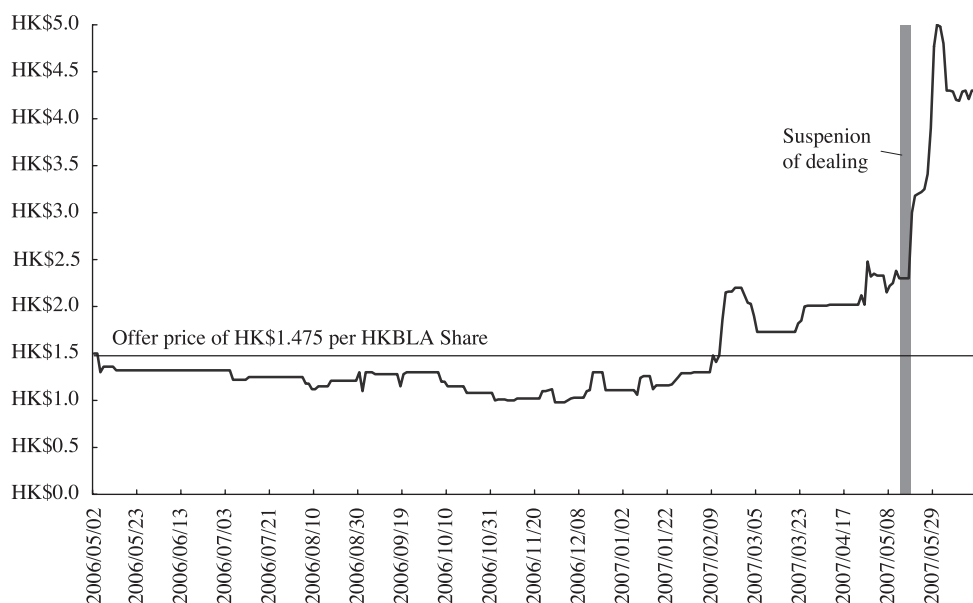
- (i) a discount of approximately 35.9% to the closing price of HK\$2.30 per HKBLA Share as quoted on the Stock Exchange on 11th May, 2007, being the last trading day (the “Last Trading Day”) prior to the suspension of trading in the HKBLA Shares pending the release for the Announcement;
- (ii) a discount of approximately 34.7% to the average closing price of HK\$2.26 per HKBLA Share as quoted on the Stock Exchange for the last five trading days ended on 11th May, 2007;
- (iii) a discount of approximately 35.8% to the average closing price of HK\$2.296 per HKBLA Share as quoted on the Stock Exchange for the last 10 trading days ended on 11th May, 2007;
- (iv) a discount of approximately 30.7% to the average closing price of HK\$2.128 per HKBLA Share as quoted on the Stock Exchange for the last 30 trading days ended on 11th May, 2007;
- (v) a discount of approximately 14.7% to the average closing price of HK\$1.729 per HKBLA Share as quoted on the Stock Exchange for the last 90 trading days ended on 11th May, 2007;
- (vi) a discount of approximately 65.7% to the closing price of HK\$4.30 per HKBLA Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 43.2% over the audited consolidated net asset value as at 31st December, 2006 of HK\$1.03 per HKBLA Share.

LETTER FROM PARTNERS CAPITAL

- *Share price performance*

For the purpose of further comparing the Offer Price of HK\$1.475 per HKBLA Share with the market price of the HKBLA Shares, we plot the closing price level of the Shares traded on the Stock Exchange from 1st May, 2006 to 11th May, 2007, being the Last Trading Day, (the “Review Period”) and further up to the Latest Practicable Date as follows:

Share Price Performance



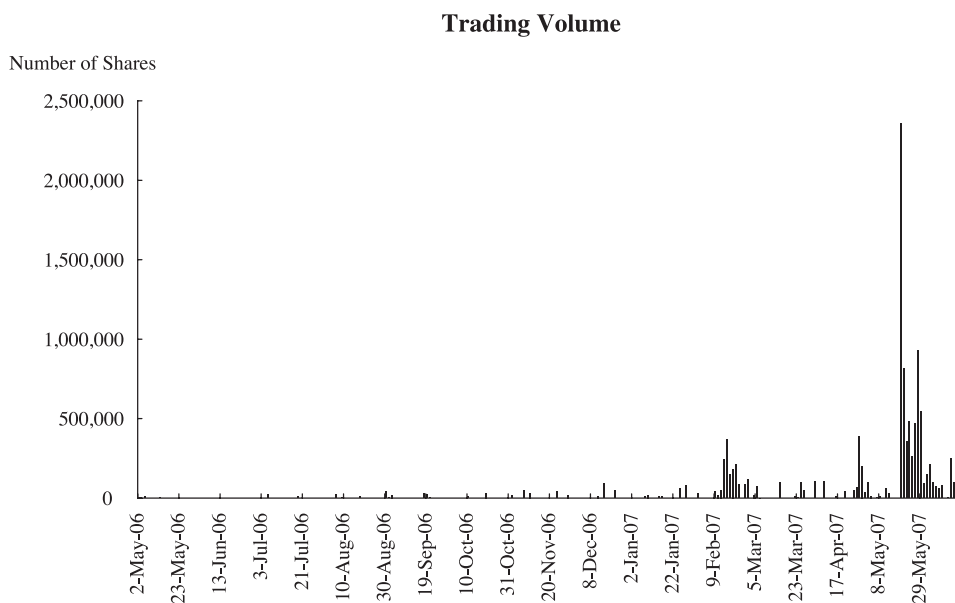
Source: Infocast

During the Review Period, the highest closing price was HK\$2.48 per HKBLA Share recorded on 26th April, 2007 and the lowest closing price was HK\$0.98 per HKBLA Share recorded on 28th, 29th and 30th November, 2006 and 1st December, 2006 respectively. The Offer Price represents a discount of approximately 40.5% to the highest closing price and a premium of approximately 50.5% over the lowest closing price respectively during the Review Period. We note that the share price of the HKBLA Share surged to a peak of HK\$5.00 on 30th May, 2007 and fell to a level of approximately HK\$4.30 on the Latest Practicable Date.

LETTER FROM PARTNERS CAPITAL

- Liquidity**

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



Source: Infocast

Month	Highest daily turnover (in number of Shares)	Lowest daily turnover (in number of Shares)	Average daily turnover (in number of Shares)	Percentage of average daily turnover to total number of Shares in issue (%)	Percentage of average daily turnover to total number of Shares held by Independent Shareholders (note) (%)
2006					
May	10,000	0	650	0.000	0.001
June	0	0	0	0.000	0.000
July	24,000	0	1,619	0.001	0.003
August	42,553	0	3,831	0.002	0.007
September	30,000	0	3,598	0.002	0.006
October	32,080	0	2,154	0.001	0.004
November	50,000	0	7,455	0.003	0.013
December	93,000	0	8,211	0.004	0.015
2007					
January	78,000	0	8,545	0.004	0.015
February	366,000	0	88,278	0.039	0.157
March	100,000	0	16,206	0.007	0.029
April	388,000	0	55,222	0.025	0.098
May	2,358,000	0	370,618	0.165	0.659
June (from 1st June to the Latest Practicable Date)	323,000	0	114,818	0.051	0.204

Source: Infocast

Note: Based on the total number of HKBLA Shares held by Independent Shareholders of 56,251,987 Shares which is equivalent to the number of Offer Shares as at the Latest Practicable Date.

LETTER FROM PARTNERS CAPITAL

During the Review Period, no trading of the Shares was recorded on 192 trading days on the Stock Exchange. Within each month of the Review Period, the average daily trading volume of the Shares ranged from zero to approximately 370,618 Shares, representing approximately not more than approximately 0.659% of the total number of issued HKBLA Shares held by Independent Shareholders. On the above basis, we consider that the liquidity of the HKBLA Shares has been generally thin during the Review Period.

(iii) Cash and treasury assets position

Given that the largest asset item of the HKBLA Group was “cash and cash equivalents” (constituting as to about 83% of net assets of the HKBLA Group as at 31st December, 2006), and in view of the insignificance of the mortgage finance segment relative to the treasury investments segment (in terms of segment revenue, segment result and segment asset), we consider that any approach to compare with companies listed on the Main Board of the Stock Exchange engaging in the similar industry of the Company as money lender/consumer financier may not be appropriate for valuation purpose.

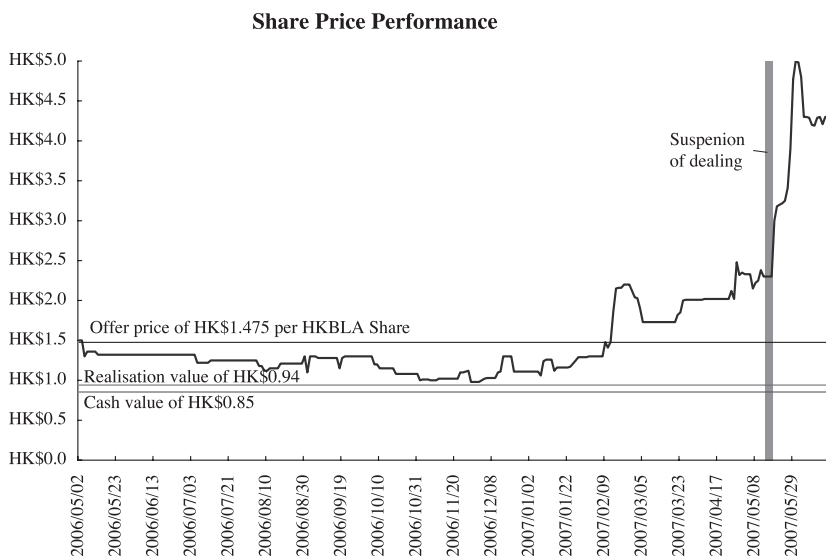
For the purpose of assessing HKBLA which is predominantly a “cash and treasury investments” oriented company at present, we attempt to summarise the cash and treasury assets position of the HKBLA Group in the following table based on information set out in the annual reports of HKBLA, and based on updated unaudited information as at 30th April, 2007 from the Directors:

		<i>HK\$' million</i>	Per share figure <i>(Note)</i> <i>HK\$</i>	Premium as represented by the Offer Price of HK\$1.475 per HKBLA Share
Cash and cash equivalents (“Cash”)	<i>(1)</i>	191.3	0.85	73.5%
Held-for-trading investments				
(treasury assets)	<i>(2)</i>	20.4		
Mortgage loans		8.2		
> Realisation value	(3) = (1)+(2)	211.7	0.94	56.9%
Net assets		231.8	1.03	43.2%

Note: Based on 225,000,000 Shares in issue as at the Latest Practicable Date.

LETTER FROM PARTNERS CAPITAL

As illustrated in the above table, each of the “Cash value” and the “Realisation value” of the HKBLA Group accounted for a majority proportion of the net assets of the Group (amounting to approximately 83% and 91% respectively). The item “Realisation value” is defined for additional evaluation purpose as the treasury assets component (namely, held-for-trading investments) under the “Realisation value” can be regarded as readily realisable into cash, at market value prevailing from time to time.



As illustrated in the table and the graph above, the Offer Price of HK\$1.475 per HKBLA Share represents a substantial premium of approximately 73.5% and 56.9% over each of the Cash value per HKBLA Share and the Realisation value per HKBLA Share. Further, the Offer Price of HK\$1.475 per HKBLA Share still represents a substantial premium of approximately 43.2% over the net assets value per HKBLA Share. On the above basis, we consider that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Maintaining the listing status of HKBLA

As set out in the Letter from Somerley, the Offeror intends to maintain the listing of the HKBLA Shares on the Main Board of the Stock Exchange after the close of the Offer. The directors of the Offeror and the proposed directors of HKBLA to be nominated by the Offeror and appointed to the board of directors of HKBLA will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the HKBLA Shares.

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

RECOMMENDATION

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

- (i) the Offer Price of HK\$1.475 per HKBLA Share represents a substantial premium of approximately 73.5% and 56.9% over each of the Cash value per HKBLA Share and the Realisation value per HKBLA Share (under the context that the largest asset item of the HKBLA Group was “cash and cash equivalents” (constituting as to about 83% of net assets of the HKBLA Group as at 31st December, 2006));
- (ii) the Offer Price of HK\$1.475 per HKBLA Share represents a substantial premium of approximately 43.2% over the net assets value per HKBLA Share;
- (iii) the thin liquidity of trading of the Shares during the Review Period, during which no trading of the Shares was recorded on 192 trading days on the Stock Exchange;
- (iv) no dividend was ever declared for the three years ended 31st December, 2006; and
- (v) the future financial performance of the HKBLA Group will be uncertain as it is highly subject to the fluctuation in market value and composition of the underlying investment portfolio of the HKBLA Group from time to time as well as the future business strategy of the new management,

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 Somerley 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

Executive Director

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited financial results of the HKBLA Group for each of the three years ended 31st December, 2006 as extracted from the annual report of HKBLA for the relevant years. The auditor of HKBLA for year ended 31st December, 2004 was Ernst & Young, Certified Public Accountants, Hong Kong and the auditor of the Company for the two years ended 31st December, 2006 was Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong. Their opinions on the consolidated financial statements of the HKBLA Group for each of the three years ended 31st December, 2006 were unqualified.

Consolidated Income Statement

	Years ended 31st December		
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Revenue	61,516	73,559	189,682
Interest income	7,776	4,289	1,618
Net gain on sales of held-for-trading investments	3,942	1,067	–
Net realised gain on disposal of other investments in securities	–	–	13,431
Fair value gain on held-for-trading investments	2,790	2,159	–
Unrealised loss on other investments in securities	–	–	(622)
Other investment income	1,221	937	1,207
Other income	182	201	91
Operating expenses	(3,856)	(4,629)	(5,148)
Net exchange (losses) gains	–	(2,789)	2,194
Impairment loss on investment securities	–	–	(3,600)
Profit before taxation	12,055	1,235	9,171
Taxation	(784)	–	(886)
Profit for the year	11,271	1,235	8,285
Attributable to:			
Equity holders of the Company	11,271	1,235	8,285
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	5.0	0.5	3.7
Diluted	N/A	N/A	N/A

During the three years ended 31st December, 2006, there were no extraordinary or exceptional items nor any minority interests and dividends.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2006

Consolidated Income Statement

For the year ended 31st December, 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue	6	<u>61,516</u>	<u>73,559</u>
Interest income		7,776	4,289
Net gain on sales of held-for-trading investments		3,942	1,067
Fair value gain on held-for-trading investments		2,790	2,159
Other investment income		1,221	937
Other income		182	201
Operating expenses		(3,856)	(4,629)
Net exchange losses		<u>–</u>	<u>(2,789)</u>
Profit before taxation	8	12,055	1,235
Taxation	9	<u>(784)</u>	<u>–</u>
Profit for the year		<u>11,271</u>	<u>1,235</u>
Attributable to:			
Equity holders of the Company		<u>11,271</u>	<u>1,235</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	13		
Basic		<u>5.0</u>	<u>0.5</u>
Diluted		<u>N/A</u>	<u>N/A</u>

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

Consolidated Balance Sheet

At 31st December, 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Plant and equipment	<i>14</i>	17	10
Mortgage loans	<i>15</i>	4,839	723
Deferred tax assets	<i>24</i>	<u>2,612</u>	<u>3,396</u>
		<u>7,468</u>	<u>4,129</u>
CURRENT ASSETS			
Mortgage loans	<i>15</i>	3,906	4,457
Held-for-trading investments	<i>17</i>	26,060	41,495
Prepayments, deposits and other receivables	<i>18</i>	3,251	423
Cash and bank balances	<i>19</i>	<u>192,073</u>	<u>170,940</u>
		<u>225,290</u>	<u>217,315</u>
CURRENT LIABILITIES			
Other creditors and accruals	<i>25</i>	<u>877</u>	<u>834</u>
NET CURRENT ASSETS			
		<u>224,413</u>	<u>216,481</u>
		<u>231,881</u>	<u>220,610</u>
CAPITAL AND RESERVE			
Share capital	<i>20</i>	225,000	225,000
Reserve		<u>6,881</u>	<u>(4,390)</u>
		<u>231,881</u>	<u>220,610</u>

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

Balance Sheet

At 31st December, 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Plant and equipment	14	7	10
Mortgage loans	15	2,925	723
Interests in subsidiaries	22	2	2
Deferred tax assets	24	2,398	3,396
		<u>5,332</u>	<u>4,131</u>
CURRENT ASSETS			
Mortgage loans	15	292	4,457
Held-for-trading investments	17	26,060	41,495
Amounts due from subsidiaries	23	6,708	34
Prepayments, deposits and other receivables	18	3,239	423
Cash and bank balances	19	191,999	170,939
		<u>228,298</u>	<u>217,348</u>
CURRENT LIABILITIES			
Other creditors and accruals	25	738	829
NET CURRENT ASSETS			
		<u>227,560</u>	<u>216,519</u>
		<u>232,892</u>	<u>220,650</u>
CAPITAL AND RESERVE			
Share capital	20	225,000	225,000
Reserve	21	7,892	(4,350)
		<u>232,892</u>	<u>220,650</u>

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP**Consolidated Statement of Changes in Equity***For the year ended 31st December, 2006*

	Attributable to equity holders of the Company (Accumulated losses)/		
	Share capital	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2005	225,000	(5,625)	219,375
Profit for the year and total recognised income	<u>–</u>	<u>1,235</u>	<u>1,235</u>
At 31st December, 2005 and 1st January, 2006	225,000	(4,390)	220,610
Profit for the year and total recognised income	<u>–</u>	<u>11,271</u>	<u>11,271</u>
At 31st December, 2006	<u><u>225,000</u></u>	<u><u>6,881</u></u>	<u><u>231,881</u></u>

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP**Consolidated Cash Flow Statement***For the year ended 31st December, 2006*

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit before taxation	12,055	1,235
Adjustments for:		
Depreciation	5	16
Loss on disposal of plant and equipment	–	38
Impairment allowances on mortgage loans	163	34
Fair value gain on held-for-trading investments	(2,790)	(2,159)
	<u>9,433</u>	<u>(836)</u>
Operating cash flow before movements in working capital	9,433	(836)
Increase in mortgage loans	(3,728)	(2,162)
Decrease in held-for-trading investments	18,225	5,998
(Increase) decrease in prepayments, deposits and other receivables	(2,828)	318
Increase (decrease) in other creditors and accruals	43	(510)
	<u>21,145</u>	<u>2,808</u>
NET CASH FROM OPERATING ACTIVITIES	21,145	2,808
CASH USED IN INVESTING ACTIVITY		
Purchase of plant and equipment	(12)	(12)
	<u>(12)</u>	<u>(12)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	21,133	2,796
CASH AND CASH EQUIVALENTS		
AT 1ST JANUARY,	<u>170,940</u>	<u>168,144</u>
CASH AND CASH EQUIVALENTS		
AT 31ST DECEMBER,		
represented by		
Cash and bank balances	<u>192,073</u>	<u>170,940</u>

Notes to the Financial Statements

For the year ended 31st December, 2006

1. CORPORATE INFORMATION

The Company is a limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent company is Island New Finance Limited, a limited company incorporated in the British Virgin Islands. Its ultimate holding company is Allied Group Limited, a limited company incorporated and listed in Hong Kong. The registered office and principal place of business of the Company are at Room 2101, 21/F., Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong. The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The principal activities of the Company and its subsidiaries (the “Group”) are investment holding, treasury investments and the provision of mortgage finance and other related services.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group and the Company have applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group and the Company have not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group and the Company.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1st January, 2007

² Effective for annual periods beginning on or after 1st January, 2009

³ Effective for annual periods beginning on or after 1st March, 2006

⁴ Effective for annual periods beginning on or after 1st May, 2006

⁵ Effective for annual periods beginning on or after 1st June, 2006

⁶ Effective for annual periods beginning on or after 1st November, 2006

⁷ Effective for annual periods beginning on or after 1st March, 2007

⁸ Effective for annual periods beginning on or after 1st January, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- (ii) dealings in securities and disposals of investments are recognised on the trade dates when the relevant contract notes are exchanged.
- (iii) dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's and the Company's financial assets are classified into two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise held-for-trading investments. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including mortgage loans, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group and the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policy adopted in respect of other financial liabilities is set out below:

Other financial liabilities

The Group's and the Company's other financial liabilities include other creditors and accruals which are subsequently measured at amortised cost, using the effective interest rate method.

Impairment losses

At each balance sheet date, the Group and the Company review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Operating leases

Rentals payable under operating leases are charged to profit or loss on the straight-line basis over term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

Taxation

At 31st December, 2006, deferred tax assets of HK\$2,612,000 (2005: HK\$3,396,000) and HK\$2,398,000 (2005: HK\$3,396,000) in relation to deductible temporary differences and unused tax losses have been recognised in the Group's and the Company's balance sheet respectively. No deferred tax asset has been recognised on the tax losses of HK\$21,903,000 (2005: HK\$21,903,000) in the Group's and the Company's balance sheet due to unpredictability of future profit streams. The realisability of the deferred tax assets mainly depend on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a reversal or additional recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal or additional recognition takes place.

Impairment allowances on mortgage loans

The Group and the Company establish, through charges against profit, impairment allowances in respect of estimated incurred loss in mortgage loans. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances represent the aggregate amount by which management considers necessary to write down its loan portfolio in order to state it in the balance sheet at its estimated net recoverable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the allowance is also impacted by the collateral value and this in turn, may be discounted in certain circumstances to recognise the impact of forced sale or quick liquidation.

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio adjusted for current conditions.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Company's major financial instruments include mortgage loans and held-for-trading investments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Fair value and cash flow interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has no material exposure to fair value interest rate risk as the fixed-rate mortgage loans are short term. The Group's and the Company's exposure to cash flow interest rate risk is caused by both the variable-rate mortgage loans and bank deposits. Interest income will fluctuate because of changes in market interest rates. The Group and the Company are currently debt-free and the management of the Group believes that the Group's and the Company's exposure to the cash flow interest rate risk is insignificant.

(ii) Equity price risk

The Group's and the Company's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group and the Company are exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and balance sheet. In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue loans. In addition, the Group and the Company review the recoverable amount of each individual loan and advance at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit risk on liquid funds is limited because the counterparties are banks located in Hong Kong subject to the supervision by the Hong Kong Monetary Authority. The Group and the Company have no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the Directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

6. REVENUE

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

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mortgage finance:		
Interest on mortgage loans	1,381	205
Treasury investments:		
Interest on bank deposits	6,395	4,084
Sales proceeds of held-for-trading investments	52,519	68,333
Other investment income	1,221	937
	<u>61,516</u>	<u>73,559</u>

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions – mortgage finance and treasury investments. These divisions are the basis on which the Group reports its primary segment information. Principal activities are as follows:

- (a) the mortgage finance segment engages in the provision of mortgage finance and other related services; and
- (b) the treasury investments segment includes interest income on bank deposits, securities trading and dividend income.

Segment information about these businesses is presented below:

	Mortgage finance <i>HK\$'000</i>	2006 Treasury investments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	1,381	60,135	61,516
Interest income	1,381	6,395	7,776
Net gain on sales of held-for-trading investments	–	3,942	3,942
Segment result	1,400	14,348	15,748
Unallocated expenses			(3,693)
Profit before taxation			12,055
Taxation			(784)
Profit for the year			11,271
Segment assets	8,845	221,117	229,962
Unallocated assets			2,796
Total assets			232,758
Segment liabilities	320	–	320
Unallocated liabilities			557
Total liabilities			877
Other information:			
Impairment allowances on mortgage loans	(163)	–	(163)
Unallocated:			
Capital additions			(12)
Depreciation			(5)

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

	Mortgage finance <i>HK\$'000</i>	2005 Treasury investments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	205	73,354	73,559
Interest income	205	4,084	4,289
Net gain on sales of held-for-trading investments	–	1,067	1,067
Segment result	299	5,482	5,781
Unallocated expenses			(4,546)
Profit before taxation			1,235
Taxation			–
Profit for the year			1,235
Segment assets	5,207	212,652	217,859
Unallocated assets			3,585
Total assets			221,444
Segment liabilities	364	–	364
Unallocated liabilities			470
Total liabilities			834
Other information:			
Impairment allowances on mortgage loans	(34)	–	(34)
Unallocated:			
Capital additions			(12)
Depreciation			(16)
Loss on disposal of plant and equipment			(38)

Geographical segments

No geographical segment analysis is presented as all of the Group's business activities during the year under review were conducted in Hong Kong.

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Employee benefits expense (including Directors' emoluments (<i>note 10</i>)):		
Wages and salaries	1,239	1,344
Retirement benefit costs (<i>note 27</i>)	34	28
	<u>1,273</u>	<u>1,372</u>
Depreciation	5	16
Auditor's remuneration	482	239
Loss on disposal of plant and equipment	–	38
Operating leases payments	85	832
Impairment allowances on mortgage loans	163	34
	<u><u>1,273</u></u>	<u><u>1,372</u></u>

9. TAXATION

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong		
Current tax	–	–
Deferred tax (<i>note 24</i>):		
Current year	784	–
	<u>784</u>	<u>–</u>
	<u><u>784</u></u>	<u><u>–</u></u>

No current tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. The tax charge for the year represents utilisation of deferred tax assets recognised in prior years.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit before taxation	<u>12,055</u>	<u>1,235</u>
Tax at the domestic income tax rate of 17.5%	2,110	216
Tax effect of income not taxable for tax purpose	(1,340)	(892)
Tax effect of expenses not deductible for tax purpose	14	697
Utilisation of tax losses previously not recognised	–	(21)
	<u>784</u>	<u>–</u>
Tax charge for the year	<u><u>784</u></u>	<u><u>–</u></u>

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 7 (2005: 17) Directors were as follows:

	Directors' fees	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Executive Directors:</i>		
Akihiro Nagahara (<i>Chairman</i>)	10	2
Stephen Lo Kam Fai (<i>Chief Executive</i>)	10	2
Poon Mo Yiu	3	–
Edwin Lo King Yau	7	2
David T. Yeh	–	–
Lee Jark Pui, O.B.E., J.P.	–	–
Jonathan Miles Foxall	–	–
Ng Tai Chiu	–	–
<i>Non-Executive Directors:</i>		
Ning Gaoning	–	200
Chan Wai Lam	–	12
Leon Chan Nim Leung	–	156
Michael Chan Kwok Shung	–	6
<i>Independent Non-Executive Directors:</i>		
Chan Bo Ching	75	13
Li Chak Hung	90	13
Yuen Wai Ho	75	13
Leung Nai Kong, B.B.S., J.P.	–	63
Tsui King Fai	–	63
Victor Yung Ha Kuk	–	63
	<hr/>	<hr/>
Total emoluments	270	608
	<hr/> <hr/>	<hr/> <hr/>

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

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2005: two) was a Director of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining four (2005: three) individuals were as follows:

	2006		2005	
	<i>HK\$'000</i>		<i>HK\$'000</i>	
Basic salaries, allowances and benefits in kind	969		518	
Retirement benefit costs	34		21	
	<hr/>		<hr/>	
	1,003		539	
	<hr/> <hr/>		<hr/> <hr/>	

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

Their emoluments were within the following band:

	2006 <i>Number of employees</i>	2005 <i>Number of employees</i>
Nil – HK\$1,000,000	<u>4</u>	<u>3</u>

12. DIVIDENDS

No dividend was paid or proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

13. EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit for the year attributable to equity holders of the Company of HK\$11,271,000 (2005: HK\$1,235,000) and on 225,000,000 (2005: 225,000,000) ordinary shares in issue during the year.

No diluted earnings per share is presented as there were no potential ordinary shares during the years.

14. PLANT AND EQUIPMENT

	The Group Furniture and equipment HK\$'000
COST	
At 1st January, 2005	347
Additions	12
Eliminated on disposals	<u>(348)</u>
At 31st December, 2005	11
Additions	<u>12</u>
At 31st December, 2006	<u>23</u>
DEPRECIATION	
At 1st January, 2005	295
Provided for the year	16
Eliminated on disposals	<u>(310)</u>
At 31st December, 2005	1
Provided for the year	<u>5</u>
At 31st December, 2006	<u>6</u>
CARRYING VALUES	
At 31st December, 2006	<u><u>17</u></u>
At 31st December, 2005	<u><u>10</u></u>

Furniture and equipment are depreciated on a straight-line basis at 20% to 33 $\frac{1}{3}$ % per annum.

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

	The Company Furniture and equipment HK\$'000
COST	
At 1st January, 2005	347
Additions	12
Eliminated on disposals	(348)
	<hr/>
At 31st December, 2005 and 31st December, 2006	11
	<hr/>
DEPRECIATION	
At 1st January, 2005	295
Provided for the year	16
Eliminated on disposals	(310)
	<hr/>
At 31st December, 2005	1
Provided for the year	3
	<hr/>
At 31st December, 2006	4
	<hr/>
CARRYING VALUES	
At 31st December, 2006	7
	<hr/> <hr/>
At 31st December, 2005	10
	<hr/> <hr/>

Furniture and equipment are depreciated on a straight-line basis at 20% to 33 $\frac{1}{3}$ % per annum.

15. MORTGAGE LOANS

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed-rate loan receivables	1,705	4,000
Variable-rate loan receivables	7,040	1,180
	<hr/>	<hr/>
	8,745	5,180
	<hr/> <hr/>	<hr/> <hr/>
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the balance sheet date)	3,906	4,457
Non-current assets (receivables after 12 months from the balance sheet date)	4,839	723
	<hr/>	<hr/>
	8,745	5,180
	<hr/> <hr/>	<hr/> <hr/>

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

Balance of mortgage loans at 31st December, 2006 is net of accumulated impairment allowances of HK\$168,000 (2005: HK\$151,000).

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

The maturity profile of mortgage loans, net of impairment allowances, at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Repayable:		
Within 3 months	3,528	177
Between 3 months and 1 year	378	4,280
Between 1 and 5 years	1,410	629
After 5 years	3,429	94
	<u>8,745</u>	<u>5,180</u>

The fair value of the Group's mortgage loans, determined based on the present value of the estimated future cash flows discounted using the effective interest rate at 31st December, 2006 approximates to the carrying amount of the mortgage loans.

	The Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed-rate loan receivable	–	4,000
Variable-rate loan receivables	3,217	1,180
	<u>3,217</u>	<u>5,180</u>
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the balance sheet date)	292	4,457
Non-current assets (receivables after 12 months from the balance sheet date)	2,925	723
	<u>3,217</u>	<u>5,180</u>

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

Balance of mortgage loans at 31st December, 2006 is net of accumulated impairment allowances of HK\$80,000 (2005: HK\$151,000).

The maturity profile of mortgage loans, net of impairment allowances, at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	The Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Repayable:		
Within 3 months	73	177
Between 3 months and 1 year	219	4,280
Between 1 and 5 years	363	629
After 5 years	2,562	94
	<u>3,217</u>	<u>5,180</u>

The fair value of the Company's mortgage loans, determined based on the present value of the estimated future cash flows discounted using the effective interest rate at 31st December, 2006 approximates to the carrying amount of the mortgage loans.

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

16. IMPAIRMENT ALLOWANCES ON MORTGAGE LOANS

	The Group		
	Impairment allowances		
	Individual <i>HK\$'000</i>	Collective <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2005	403	62	465
Charge during the year	–	34	34
Amounts written off	(348)	–	(348)
Transfer	91	(91)	–
	<u>146</u>	<u>5</u>	<u>151</u>
At 31st December, 2005	146	5	151
Charge during the year	–	163	163
Amounts written off	(146)	–	(146)
	<u>–</u>	<u>168</u>	<u>168</u>
At 31st December, 2006	–	168	168

	The Company		
	Impairment allowances		
	Individual <i>HK\$'000</i>	Collective <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2005	403	62	465
Charge during the year	–	34	34
Amounts written off	(348)	–	(348)
Transfer	91	(91)	–
	<u>146</u>	<u>5</u>	<u>151</u>
At 31st December, 2005	146	5	151
Charge during the year	–	75	75
Amounts written off	(146)	–	(146)
	<u>–</u>	<u>80</u>	<u>80</u>
At 31st December, 2006	–	80	80

17. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments include:

	The Group and the Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong	<u>26,060</u>	<u>41,495</u>

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

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The fair value of the Group's and the Company's prepayments, deposits and other receivables at 31st December, 2006 approximates to the corresponding carrying amount. Included in the Group's and the Company's other receivables are receivables from fellow subsidiaries of HK\$2,908,000 (2005: Nil) in relation to the trading of listed securities.

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

19. CASH AND BANK BALANCES

The amounts comprise cash held by the Group and the Company and short-term bank deposits at market interest rates with an original maturity of three months or less. The fair value of these assets at 31st December, 2006 approximates to the corresponding carrying amount.

20. SHARE CAPITAL OF THE COMPANY

	2006 & 2005 <i>HK\$'000</i>
Authorised:	
300,000,000 ordinary shares of HK\$1.00 each	300,000
Issued and fully paid:	
225,000,000 ordinary shares of HK\$1.00 each	225,000

21. RESERVE

	The Company (Accumulated losses)/Retained profits <i>HK\$'000</i>
At 1st January, 2005	(6,044)
Profit for the year	1,694
At 31st December, 2005	(4,350)
Profit for the year	12,242
At 31st December, 2006	7,892

22. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	2	2

Particulars of subsidiaries at 31st December, 2006 are as follows:

Name of Company	Place of incorporation and operation	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company	Principal activities
The Building and Loan Agency (Asia) Limited	Hong Kong	HK\$2	100%	Money lending
Winbest Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

23. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from subsidiaries	14,584	7,906
Allowance for impairment loss	(7,876)	(7,872)
	6,708	34
	6,708	34

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

24. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised by the Group and the Company and movements thereon during the current and prior year:

	The Group			
	Accelerated tax depreciation	Impairment allowances on mortgage loans	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2005 and 31st December, 2005	–	–	3,396	3,396
(Charge) credit to income for the year	(1)	15	(798)	(784)
	(1)	15	2,598	2,612
At 31st December, 2006	(1)	15	2,598	2,612

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	2,613	3,396
Deferred tax liabilities	(1)	–
	2,612	3,396
	2,612	3,396

At the balance sheet date, the Group has unused tax losses of approximately HK\$36,751,000 (2005: HK\$41,311,000) available for offset against future profits. Deferred tax assets have been recognised in respect of HK\$14,848,000 (2005: HK\$19,408,000) of such losses.

APPENDIX I FINANCIAL INFORMATION ON THE HKBLA GROUP

No deferred tax asset has been recognised in respect of the following balances as it is uncertain that there will be sufficient future profits available to utilise the balances, and the unrecognised tax losses may be carried forward indefinitely.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Unrecognised tax losses	21,903	21,903
Deductible temporary differences	<u>95</u>	<u>21</u>
		The Company
		Tax losses
		<i>HK\$'000</i>
At 1st January, 2005 and 31st December, 2005		3,396
Charge to income for the year		<u>(998)</u>
At 31st December, 2006		<u>2,398</u>

At the balance sheet date, the Company has unused tax losses of HK\$35,608,000 (2005: HK\$41,311,000) available for offset against future profits. Deferred tax assets have been recognised in respect of HK\$13,705,000 (2005: HK\$19,408,000) of such losses.

No deferred tax asset has been recognised in respect of the following balances as it is uncertain that there will be sufficient future profits available to utilise the balances, and the unrecognised tax losses may be carried forward indefinitely.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Unrecognised tax losses	21,903	21,903
Deductible temporary differences	<u>95</u>	<u>21</u>

25. OTHER CREDITORS AND ACCRUALS

	The Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Other creditors and accruals	<u>877</u>	<u>834</u>
		The Company
		2006 <i>HK\$'000</i>
		2005 <i>HK\$'000</i>
Other creditors and accruals	<u>738</u>	<u>829</u>

The fair value of the Group's and the Company's other creditors and accruals at 31st December, 2006 approximates to the corresponding carrying amount.

26. OPERATING LEASES

At the balance sheet date, the Group and the Company had commitments for future minimum leases payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>72</u>	<u>57</u>
	The Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>36</u>	<u>22</u>

Operating leases payments represent rentals payable by the Group and the Company for certain of its office properties. Leases are negotiated for an average term of one year and rentals are fixed for the respective lease term.

27. RETIREMENT BENEFIT SCHEME

The Group and the Company participate in a defined contribution scheme which is registered under a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the scheme are held separately from those of the Group and the Company, in funds under the control of trustee.

For members of the MPF Scheme, the Group and the Company contribute 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to the consolidated income statement of HK\$34,000 (2005: HK\$28,000) represents contributions payable to the scheme by the Group in respect of the current accounting period.

28. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

(A) Expense items

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental paid to an intermediate holding company	72	15
Commissions paid to fellow subsidiaries	243	6
Rental paid to a former intermediate holding company	–	660
Commissions paid to a former fellow subsidiary	–	276
	<u> </u>	<u> </u>

Except for the above, details of balances with related parties are set out in note 18.

(B) Compensation of key management personnel

The key management of the Group comprises all Directors, details of their remuneration are disclosed in note 10. The remuneration of Directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

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.

This information contained in this offeree board circular is supplied by the HKBLA 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 has been extracted or derived from the Offer Document. The HKBLA 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 HKBLA Shares, of which HK\$225,000,000, divided into 225,000,000 HKBLA Shares, had been issued and were fully paid up. No HKBLA Shares were issued between 31st December, 2006, being the end of the last financial year of HKBLA, and the Latest Practicable Date. All of the HKBLA 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 HKBLA Directors

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

(2) HKBLA Directors' Service Contracts

None of the HKBLA Directors:

- (i) entered into or amended any service contracts (including both continuous and fixed term contract) within the six months prior to 14th May, 2007 (being the commencement date of the Offer period pursuant to the Takeovers Code) with HKBLA or any of its subsidiaries or associated companies, which is not determinable by HKBLA or any of its subsidiaries or associated companies within one year without payment of compensation, other than statutory compensation; or

- (ii) entered into any service contracts with HKBLA or any of its subsidiaries or associated companies, which are continuous contracts with a notice period of 12 months or more; or
- (iii) entered into any service contracts with HKBLA or any of its subsidiaries or associated companies, which are fixed term contracts with more than 12 months to run irrespective of the notice period.

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

As at the Latest Practicable Date, so far as is known to any HKBLA Director or the chief executive of HKBLA, the following person had, or was deemed or taken to have, an interest or short position in the HKBLA Shares 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 SFO:

Name	Number of HKBLA Shares held	Approximate % of shareholding
Mercurius Partners Investments Limited	168,748,013	74.99%

As at the Latest Practicable Date, save for the interest disclosed above and save as Mr. John Zwaanstra's interest in the above 168,748,013 HKBLA Shares through his beneficial interests in the Offeror, none of the Offeror, parties acting in concert with it and the directors of the Offeror owned or controlled any interest in HKBLA.

The interests stated above represent a long position. As at the Latest Practicable Date, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

(4) Arrangements affecting HKBLA Directors

- (a) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the HKBLA Directors had a material personal interest.
- (b) None of the existing HKBLA 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 HKBLA 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, convertible securities, warrants, options and derivatives in respect of shares of the Offeror.
- (b) As at the Latest Practicable Date, no subsidiary of HKBLA or pension fund of the HKBLA Group or adviser to HKBLA as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any HKBLA Shares or convertible securities, warrants, options or derivatives in respect of the HKBLA 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, 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.
- (e) A resolution has been passed by the Board on 21st May, 2007 to approve the payment of a management bonus of HK\$1,300,000 to Mr. Akihiro Nagahara, an Executive Director and Chairman of HKBLA.

4. DEALING IN HKBLA SHARES

- (1) During the Relevant Period,
 - (a) none of the HKBLA Directors had dealt for value in any securities of HKBLA; and
 - (b) neither HKBLA nor any of the HKBLA 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 fund of the HKBLA Group 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

As at the Latest Practicable Date, the HKBLA Group was not engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the HKBLA Directors to be pending or threatened by or against the HKBLA 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 HKBLA Group, had been entered into after the date of the two years preceding the date of the commencement of the Offer Period and up to the Latest Practicable Date.

7. INDEBTEDNESS

As at 30th April, 2007, no company in the HKBLA 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 30th April, 2007, no company in the HKBLA Group had any material capital commitment or contingent liabilities outstanding.

8. NO MATERIAL CHANGE

As at the Latest Practicable Date, the HKBLA Directors were not aware of any material changes in the financial or trading position or outlook of the HKBLA Group since 31st December, 2006, being the date to which the latest published audited accounts of the HKBLA Group were made up.

9. EXPERT AND CONSENT

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:

Name	Qualification
Partners Capital	A licensed corporation to carry on types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the SFO

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.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of following documents will be available for inspection at the office of P. C. Woo & Co. at 12th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong during normal business hours on any business day 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 financial years ended 31st December, 2005 and 31st December, 2006, respectively;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 9 to 10 of this offeree board circular;
- (d) the letter of advice from Partners Capital, the text of which is set out on pages 11 to 23 of this offeree board circular; and
- (e) the written consent referred to the paragraph headed "Expert and Consent" in this Appendix.

Copies of these documents will also be available for inspection on the website at www.irasia.com/listco/hk/hkbla/index.htm and the website of the SFC at www.sfc.hk while the Offer remains open for acceptance.

11. MISCELLANEOUS

- (a) The Secretary of HKBLA is Mr. Stephen Lo Kam Fai. He is a member of the Institute of Chartered Accountants of England and Wales and a fellow member of both The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of HKBLA is situated at Room 2101, 21st Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.
- (c) The share registrar of HKBLA is Tengis Limited, the office of which is situated at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong.
- (d) The English Language text of this offeree board circular shall prevail over the Chinese language text.