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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)

**PROPOSED GRANT OF SEPARATE SPECIFIC MANDATE
TO ISSUE FURTHER CONVERSION SHARES
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

A notice convening the extraordinary general meeting of The Hong Kong Building and Loan Agency Limited to be held at LG2, The Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong on Thursday, 3 April 2014 at 11:30 a.m. is set out on pages 35 to 36 of this circular. Whether or not you are able to attend the extraordinary general meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit at the Company's registered office of Unit F, 7/F., China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or any adjourned meeting (as the case may be) should you so wish.

18 March 2014

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DEFINITIONS

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

“Adjusted Conversion Price”	the adjusted conversion price of HK\$0.14 for the Option Convertible Bonds and the Possible Convertible Bonds under the First Adjustment
“Board”	the board of Directors
“Bond Instrument”	the bond instrument of the Option Convertible Bonds and/or the Possible Convertible Bonds
“Business Day(s)”	a day (excluding Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business
“CB Options”	100 CB options placed and announced by the Company on 8 October 2012, which upon exercise, the holders of the CB Option(s) are entitled to subscribe for, in aggregate, the convertible bonds of the Company in the principal amount of up to HK\$15,660,000 which is convertible into a maximum of 87,000,000 new Shares at the initial conversion price of HK\$0.18
“Company”	The Hong Kong Building and Loan Agency Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
“Convertible Bond(s)”	the convertible bonds in the principal amount of HK\$60,750,000 issued in five Tranches by the Company, convertible into up to a maximum of 450,000,000 conversion shares at the initial conversion price of HK\$0.135, among which (i) the first Tranche in the principal amount of HK\$17,550,000 has been issued on 19 December 2013; and (ii) the Remaining Tranches in the principal amount of HK\$43,200,000 have been issued on 17 February 2014
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, passing the ordinary resolution(s) that will be proposed to approve the proposed grant of the Specific Mandate to issue Further Conversion Shares and the transactions contemplated thereunder

DEFINITIONS

“Existing CB Options”	the 86 CB Options, after deducting the exercised CB Options, being convertible into the Possible Convertible Bonds in the principal amount of HK\$13,467,600
“First Adjustment”	adjustment on the conversion price from HK\$0.18 to HK\$0.14 per conversion Share of the Option Convertible Bonds and the Possible Convertible Bonds as at 19 December 2013
“Further Adjusted Conversion Price”	the further adjusted conversion price of HK\$0.10 for the Option Convertible Bonds and the Possible Convertible Bonds under the Second Adjustment
“Further Conversion Share(s)”	such additional conversion Share(s) to be allotted and issued upon conversion of the Option Convertible Bonds and the Possible Convertible Bonds as a result of the Second Adjustment (i.e. 66,786,227 conversion Shares) and any further additional conversion Shares arising from subsequent adjustments to the respective conversion price that may be triggered due to the event(s) other than the completion of the Placing in accordance with the terms and conditions of the Option Convertible Bonds and the Possible Convertible Bonds
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	14 March 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which became effective on 3 March 2014
“Option Convertible Bonds”	the convertible bonds subscribed by the holders of the 10 CB Options
“Outstanding Convertible Securities”	the Existing CB Options, the Option Convertible Bonds, the Convertible Bonds and share options granted under the share option scheme of the Company to subscribe for Shares

DEFINITIONS

“Placee(s)”	any person or entity with whom the Placing Agent and/or any of its agent(s) have procured to subscribe the Convertible Bond under the Placing or any Tranche
“Placing”	the placing of the Convertible Bonds in Tranches by the Placing Agent to the Placees pursuant to the Placing Agreements
“Placing Agent”	FT Securities Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the placing agreement in relation to the placing of the Convertible Bonds dated 26 February 2013 and entered into between the Company and the Placing Agent in respect of the Placing
“Placing Agreements”	the Placing Agreement (as supplemented by the Supplemental Placing Agreement, the Second Supplemental Placing Agreement and the Third Supplemental Placing Agreement) in respect of the Placing
“Placing Circular”	the circular of the Company dated 21 October 2013 in relation to, among other things, the Placing
“Placing Period”	the period of three months commencing from the Business Day immediately after the extraordinary general meeting of the Company held on 5 November 2013 at which the Shareholders having approved the Placing and the issuance of the Convertible Bonds, unless terminated earlier pursuant to the terms of the Placing Agreements
“Possible Convertible Bonds”	the convertible bonds in the principal amount of up to HK\$13,467,600 possibly to be issued as a result of the full exercise of the Existing CB Options pursuant to the option subscription agreement and the option instrument included in the announcement published by the Company on 24 July 2012
“Remaining Tranches”	The second, third, fourth and fifth Tranches of the Convertible Bonds
“Second Adjustment”	adjustment on the conversion price from HK\$0.14, being the Adjusted Conversion Price, to HK\$0.10 per conversion Share of the Option Convertible Bonds and the Possible Convertible Bonds as at 17 February 2014

DEFINITIONS

“Second Supplemental Placing Agreement”	the second supplemental placing agreement dated 22 August 2013 in relation to the revision of the terms of the Placing Agreement and the Supplemental Placing Agreement entered into between the Company and the Placing Agent in respect of the Placing
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Specific Mandate”	a specific mandate to be sought from the Shareholders at the EGM to approve the proposed grant of the Specific Mandate to issue the Further Conversion Shares and the transactions contemplated thereunder
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Supplemental Placing Agreement”	the supplemental placing agreement dated 15 March 2013 in relation to the revision of the terms of the Placing Agreement entered into between the Company and the Placing Agent in respect of the Placing
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs published by the Securities and Futures Commission
“Third Supplemental Placing Agreement”	the third supplemental placing agreement dated 16 October 2013 in relation to the revision of the terms of the Placing Agreement, the Supplemental Placing Agreement and the Second Supplemental Placing Agreement entered into between the Company and the Placing Agent in respect of the Placing
“Tranche(s)”	each tranche in the Placing and the principal amount of the Convertible Bonds placed in each tranche shall be HK\$1,350,000 or any multiple thereof and there shall not be more than five tranches in the Placing
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.



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. So Yuen Chun

Mr. Yeung Kwok Leung

Non-executive Director:

Mr. Lam Kwok Hing, Wilfred, J.P.

Independent Non-executive Directors:

Mr. Yeung Wai Hung, Peter

Mr. Lam Raymond Shiu Cheung

Ms. Yuen Wai Man

Registered office:

Unit F, 7/F

China Overseas Building

139 Hennessy Road

Wanchai, Hong Kong

18 March 2014

*To the Shareholders, and for information only
holders of the Outstanding Convertible Securities*

Dear Sir/Madam,

**PROPOSED GRANT OF SEPARATE SPECIFIC MANDATE
TO ISSUE FURTHER CONVERSION SHARES**

INTRODUCTION

References are made to:

- (i) the announcements of the Company dated 28 February 2013, 15 March 2013, 22 August 2013, 16 October 2013 and 11 February 2014 in relation to, among other things, the Placing;
- (ii) the announcements of the Company in relation to (a) the placing of CB Options to subscribe for the Possible Convertible Bonds under General Mandate (as defined below) dated 24 July 2012 and (b) the completion of (a) abovementioned dated 8 October 2012;
- (iii) the circular of the Company dated 21 October 2013 in relation to, among other things, the Placing;

LETTER FROM THE BOARD

- (iv) the announcement of the Company dated 19 December 2013 in relation to, among other things, the completion of the placing for the first Tranche in the aggregate principal amount of HK\$17,550,000 which took place on 19 December 2013;
- (v) the announcement of the Company dated 18 February 2014 in relation to, among other things, the completion of the placing for the Remaining Tranches in the aggregate principal amount of HK\$43,200,000 which took place on 17 February 2014;
- (vi) the announcement of the Company dated 31 December 2013 in relation to, among other things, the First Adjustment (as defined below); and
- (vii) the announcement of the Company dated 25 February 2014 in relation to, among other things, the Second Adjustment (as defined below).

On 24 July 2012, the Company and the placing agent entered into the second placing agreement in relation to the placing of the CB Options under General Mandate (as defined below). Upon exercise of the CB Options, the holders of the CB Option(s) are entitled to subscribe for, in aggregate, convertible bonds of the Company in the principal amount of up to HK\$15,660,000 which is convertible into a maximum of 87,000,000 new Shares at the initial conversion price of HK\$0.18.

On 26 February 2013, the Company entered into the Placing Agreement (as supplemented by the Supplemental Placing Agreement dated 15 March 2013 and the Second Supplemental Placing Agreement dated 22 August 2013) with the Placing Agent pursuant to which the Placing Agent has conditionally agreed to procure the Placees to subscribe for the Convertible Bonds of up to an aggregate principal amount of HK\$60,750,000, convertible into 450,000,000 conversion shares upon full conversion, on a best-effort basis in five Tranches.

Pursuant to the Bond Instrument, if any part of the CB Options have been exercised prior to the date(s) of issue of the Convertible Bonds as a result of the Placing, the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds shall be adjusted at the date(s) of issue of the Convertible Bonds. As 14 CB Options have been exercised prior to the dates of issue of the Convertible Bonds, the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds has been adjusted from HK\$0.18 to HK\$0.14 on 19 December 2013 and further from HK\$0.14 to HK\$0.10 on 17 February 2014.

As at the Latest Practicable Date, there are 86 out of the 100 CB Options, Option Convertible Bonds in the principal amount of HK\$1,566,000 and Possible Convertible Bonds in the principal amount of HK\$13,467,600 remaining, which, based on the Further Adjusted Conversion Price, are together convertible into 150,336,000 Shares upon full conversion which exceeds the remaining capacity of 83,549,773 Shares under the general mandate granted to the Directors at the annual general meeting of the Company held on 28 June 2012 (“**General Mandate**”) by 66,786,227 Shares. These 66,786,227 conversion Shares represent (i) approximately 11.70% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 10.48% of the issued share capital of the Company as enlarged by these additional conversion Shares.

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As (i) the remaining capacity under the General Mandate can only issue up to 83,549,773 conversion Shares as at the Latest Practicable Date, which is insufficient for the issuance of the Further Conversion Shares, the Company therefore seeks approval for a separate specific mandate from the Shareholders at the EGM regarding the issue of these Further Conversion Shares based on the Further Adjusted Conversion Price and any subsequent adjustments to the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds that may be triggered in accordance with the terms and conditions of as set out in the Bond Instrument.

The purpose of this circular is to give (i) information in relation to the proposed Specific Mandate; and (ii) notice convening the EGM to approve the Specific Mandate.

RELEVANT BACKGROUND OF THE CB OPTIONS, THE POSSIBLE CONVERTIBLE BONDS AND THE CONVERTIBLE BONDS

The CB Options and the Possible Convertible Bonds

On 24 July 2012, the Company and the relevant placing agent entered into the second placing agreement in relation to the placing of the CB Options. Upon exercise of the CB Options, the holders of the CB Option(s) are entitled to subscribe for, in aggregate, convertible bonds of the Company in the principal amount of up to HK\$15,660,000 which is convertible into a maximum of 87,000,000 new Shares at the initial conversion price of HK\$0.18. On 8 October 2012, the placing of the CB Options was completed.

The Placing of the Convertible Bonds

On 26 February 2013, the Company entered into the Placing Agreement (as supplemented by the Supplemental Placing Agreement dated 15 March 2013 and the Second Supplemental Placing Agreement dated 22 August 2013) with the Placing Agent pursuant to which the Placing Agent has conditionally agreed to procure the Placees to subscribe for the Convertible Bonds of up to an aggregate principal amount of HK\$60,750,000, convertible into 450,000,000 conversion shares upon full conversion, on a best-effort basis in five Tranches. On 19 December 2013, the Placing for the first Tranche of the Convertible Bonds was completed and Convertible Bonds in the aggregate principal amount of HK\$17,550,000 was issued by the Company, which is convertible into 130,000,000 new Shares at the conversion price of HK\$0.135. On 17 February 2014, the Placing for the Remaining Tranches of the Convertible Bonds was completed and Convertible Bonds in the aggregate principal amount of HK\$43,200,000 was issued by the Company, which are convertible into 320,000,000 new Shares at the conversion price of HK\$0.135.

PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE FURTHER CONVERSION SHARES

Pursuant to the Bond Instrument, if any part of the CB Options have been exercised prior to the date(s) of issue of the Convertible Bonds as a result of the Placing, the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds shall be adjusted at the date(s) of issue of the Convertible Bonds, which shall be determined by an independent accountant pursuant to the instruments of the CB Options and the Possible Convertible Bonds (the “**Adjustment**”).

LETTER FROM THE BOARD

Prior to the dates of issue of the Convertible Bonds, 14 out of the 100 CB Options had been exercised to subscribe for convertible bonds of the Company in the principal amount of HK\$2,192,400, among which the convertible bonds in the principal amount of HK\$626,400 had been further converted into 3,480,000 conversion Shares at the initial conversion price of HK\$0.18 on 16 December 2013 (the “**Exercised CB Option Shares**”).

As at the Latest Practicable Date, there are (i) the Option Convertible Bonds in the principal amount of HK\$1,566,000 and (ii) the Possible Convertible Bonds in the principal amount of HK\$13,467,600 to be subscribed by the holders of the Existing CB Options. Based on the Further Adjusted Conversion Price, the aggregate of (i) and (ii) of the aforesaid are convertible into up to 150,336,000 new Shares upon full exercise of the conversion rights attached thereto.

To the best knowledge of the management of the Company, the holders and the respective ultimate beneficial owners of the Existing CB Options, the Exercised CB Option Shares and the Option Convertible Bonds are third parties independent of the Company and its connected persons.

The adjustment formula of the Option Convertible Bonds and the Possible Convertible Bonds for the issue of Shares upon conversion or exchange is set out in the paragraph headed “Issue of Shares upon conversion or exchange” on page 21 of this circular.

The First Adjustment

Following the completion of the Placing for the first Tranche on 19 December 2013 and according to the findings of the independent accountant engaged by the Company regarding the adjustment, the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Existing CB Options, has been adjusted from HK\$0.18 to HK\$0.14 per conversion Share (“**First Adjustment**”) and such adjustment shall become effective from 19 December 2013.

According to the Formula as set out on page 21,

- (i) A shall mean 437,105,466, which is the number of Shares in issue immediately before the issue of the first Tranche;
- (ii) B shall mean the amount of gross proceeds from the completion of placing for the first Tranche received by the Company divided by the fair market value of one Share, calculated as HK\$17,550,000/HK\$0.75; and
- (iii) C shall mean the amount of gross proceeds from the completion of placing for the first Tranche received by the Company divided by the initial conversion price of the Convertible Bonds, calculated as HK\$17,550,000/HK\$0.135.

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The Adjusted Conversion Price was calculated as follows:

$$\begin{aligned}
 & \text{Conversion price per Share of the Option} \\
 & \text{Convertible Bonds and the Possible} \qquad \qquad \qquad \times \frac{A + B}{A + C} \\
 & \text{Convertible Bonds before the First Adjustment} \\
 \\
 = & \quad \text{HK\$0.18} \quad \times \quad \frac{437,105,466 + 23,400,000}{437,105,466 + 130,000,000} \\
 \\
 = & \quad \text{HK\$0.14 (rounded down to the nearest cent pursuant to the Bond Instrument)}
 \end{aligned}$$

The Second Adjustment

Following the completion of the Placing for the Remaining Tranches on 17 February 2014 and according to the findings of the independent accountant engaged by the Company regarding the adjustment, the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Existing CB Options, has been further adjusted from HK\$0.14 to HK\$0.10 per conversion Share (“**Second Adjustment**”) and such adjustment shall become effective from 17 February 2014.

Based on the same Formula as set out on page 21,

- (i) A shall mean 570,585,466, which is the number of Shares in issue immediately before the issue of the Remaining Tranches;
- (ii) B shall mean the amount of gross proceeds from the completion of placing for the Remaining Tranches received by the Company divided by the fair market value of one Share, calculated as HK\$43,200,000/HK\$0.485; and
- (iii) C shall mean the amount of gross proceeds from the completion of placing for the Remaining Tranches received by the Company divided by the initial conversion price of the Convertible Bonds, calculated as HK\$43,200,000/HK\$0.135.

The Further Adjusted Conversion Price was calculated as follows:

$$\begin{aligned}
 & \text{Conversion price per Share of the Option} \\
 & \text{Convertible Bonds and the Possible} \qquad \qquad \qquad \times \frac{A + B}{A + C} \\
 & \text{Convertible Bonds before the Second Adjustment} \\
 \\
 = & \quad \text{HK\$0.14} \quad \times \quad \frac{570,585,466 + 89,072,164}{570,585,466 + 320,000,000} \\
 \\
 = & \quad \text{HK\$0.10 (rounded down to the nearest cent pursuant to the Bond Instrument)}
 \end{aligned}$$

The following table illustrates the adjustment of the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds resulting from the First Adjustment and the Second Adjustment, and the number of conversion Shares falling to be issued and allotted

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upon conversion of the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Existing CB Options in full (excluding the Exercised CB Option Shares).

Immediately before completion of the Placing for the first Tranche	Immediately after completion of the Placing for the first Tranche	Immediately after completion of the Placing for the Remaining Tranches
<i>Number of conversion Shares falling to be issued upon conversion of the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Initial conversion price (HK\$)</i>	<i>Number of conversion Shares falling to be issued upon conversion of the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Adjusted Conversion Price (HK\$)</i>	<i>Number of conversion Shares falling to be issued upon conversion of the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Further Adjusted Conversion Price (HK\$)</i>
<i>Existing CB Options based on the initial conversion price</i>	<i>Existing CB Options based on the Adjusted Conversion Price</i>	<i>Existing CB Options based on the Further Adjusted Conversion Price</i>
0.18	0.14	0.10
83,520,000	107,382,857	150,336,000

Following the completion of the Placing, assuming full conversion of the Option Convertible Bonds and the Possible Convertible Bonds based on the Further Adjusted Conversion Price, the maximum number of conversion Shares to be issued shall be adjusted from 83,520,000 Shares (excluding the Exercised CB Option Shares) to 150,336,000 Shares, which exceeds the remaining capacity of 83,549,773 Shares under the General Mandate by 66,786,227 Shares. These 66,786,227 conversion Shares represent (i) approximately 11.70% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 10.48% of the issued share capital of the Company as enlarged by these additional conversion Shares. No conversion right attaching to the Option Convertible Bonds and the Possible Convertible Bonds has been exercised at the Adjusted Conversion Price as at the Latest Practicable Date.

As (i) the remaining capacity under the General Mandate can only issue up to 83,549,773 Shares as at the Latest Practicable Date, which is insufficient for the issuance of the Further Conversion Shares, the Company therefore seeks approval for a separate specific mandate from the Shareholders at the EGM regarding the issue of these Further Conversion Shares based on the Further Adjusted Conversion Price and any subsequent adjustments to the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds that may be triggered in accordance with the terms and conditions of as set out in the Bond Instrument.

For the avoidance of doubt, any subsequent adjustment(s) shall follow the formulae and mechanisms as set out in the Bond Instrument, if required.

If Shareholders' approval could not be obtained for the conversion of any other outstanding Possible Convertible Bonds, the Company will not issue any Shares but will make cash settlement upon redemption at maturity pursuant to the Bond Instrument.

LETTER FROM THE BOARD

Below is the summary of the change in the number of the Existing CB Options, the principal amount of the Option Convertible Bonds and the number of conversion Shares issued following the conversion of the Option Convertible Bonds as at the Latest Practicable Date:

Date	Event	Number of Existing CB Options	Principal amount of Option Convertible Bonds	Number of conversion Shares issued following the conversion of the Option Convertible Bonds
24 July 2012	Placing of 100 CB Options to subscribe for Possible Convertible Bonds in the principal amount of HK\$15,660,000	100	—	—
21 November 2013	10 CB Options have been exercised	90	HK\$1,566,000	—
12 December 2013	4 CB Options have been exercised	86	HK\$2,192,400	—
16 December 2013	Option Convertible Bonds in the principal amount of HK\$626,400 had been converted into 3,480,000 conversion Shares at the initial conversion price of HK\$0.18	86	HK\$1,566,000	3,480,000

Save for (i) the Existing CB Options; (ii) the Option Convertible Bonds; (iii) the Convertible Bonds; and (iv) the share options granted under the share option scheme of the Company to subscribe for Shares, the Company does not have any other outstanding options, warrants or convertible securities to subscribe for Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company has the Outstanding Convertible Securities and the Possible Convertible Bonds, which may be exercised or converted into the Shares. Reference is also made to the announcement of the Company dated 6 December 2013 in relation to, among other things, the very substantial acquisition of the Company of the entire issued share capital of Weldtech Technology Co. Limited. Part payment of the consideration will be settled by issuing convertible bonds in the aggregate principal amount of HK\$1,262,500,010, which is convertible into 1,578,125,012 Shares at the conversion price of HK\$0.8 per Share.

Pursuant to the Bond Instrument, the issuance of the Shares due to exercising the right attached to the abovementioned will not trigger further adjustment(s) of the Option Convertible Bonds and the Possible Convertible Bonds.

LETTER FROM THE BOARD

PRINCIPAL TERMS OF THE CB OPTION AND THE POSSIBLE CONVERTIBLE BONDS

The principal terms of the CB Options and the Possible Convertible Bonds remain the same as previously announced by the Company on 24 July 2012 other than the updates of (i) the remaining principal amount; (ii) the information on the adjustments on the conversion price; and (iii) the effect of the New Companies Ordinance on the anti-dilution adjustment mechanisms of the Option Convertible Bonds and the Possible Convertible Bonds as the Latest Practicable Date as underlined below.

Principal Terms of the CB Option

Issuer:	The Company
Option Premium and the Subscription Price:	The premium is HK\$7,830 per CB Option. Upon exercise of each of the CB Option, the holder of the CB Option is entitled to subscribe for Possible Convertible Bonds in the principal amount of HK\$156,600 at the subscription price of HK\$156,600.
Number of CB Options:	A total of 100 CB Options Assuming exercise of all of the 100 CB Options, the holders of the CB Options are entitled to subscribe for, in aggregate, the Possible Convertible Bonds in the principal amount of up to HK\$15,660,000 at the subscription price of HK\$156,600
Validity and Exercise Period:	Commencing from the date of execution of the instrument of the CB Options up to and including 31 July 2014 (both days inclusive)
Transferability:	The CB Options and the subscription rights attached thereto are transferable.

Principal Terms of the Possible Convertible Bonds resulting from the exercise of the CB Options

Issuer:	The Company
Principal amount:	HK\$15,660,000
Initial conversion price:	HK\$0.18 per conversion Share
Anti-dilution adjustments:	<u>On 19 December 2013, the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds has been adjusted from HK\$0.18 to HK\$0.14.</u>

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On 17 February 2014, the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds has been further adjusted from HK\$0.14 to HK\$0.10.

The Further Adjusted Conversion Price of HK\$0.10 represents (i) approximately 85.51% lower than the closing price of HK\$0.69 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (ii) approximately 84.94% lower than the average closing price of HK\$0.664 per Share as quoted on the Stock Exchange for the last five consecutive trading days including the Latest Practicable Date.

The Further Adjusted Conversion Price of HK\$0.10 was arrived at after the Second Adjustment. As the Second Adjustment and relevant adjustments to the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds shall be determined by an independent accountant pursuant to the instruments of the CB Options, the Option Convertible Bonds and the Possible Convertible Bonds, the Directors are of the view that the Further Adjusted Conversion Price is fair and reasonable.

The conversion price shall from time to time be adjusted upon the occurrence of certain events including, but not limited to, the followings:

(i) Consolidation and subdivision

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation or subdivision, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such alteration by the following fraction:—

$$\frac{A}{B}$$

where

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

LETTER FROM THE BOARD

Such adjustment shall become effective from the day on which such consolidation or subdivision becomes effective.

Under the New Companies Ordinance, the Shares shall have no par value. The Company is currently seeking legal advice regarding the above adjustment mechanism and will inform holders of the Option Convertible Bonds and the Possible Convertible Bonds of the advice as soon as practicable.

(ii) Capitalisation of profits or reserves

If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account and/or capital redemption reserve), other than Shares issued in lieu of the whole or a part of a cash dividend and other than an issue that would amount to Capital Distribution (as defined in paragraph (iii)), the conversion price shall be adjusted by multiplying the conversion price in force immediately before such issue by the following fraction:—

$$\frac{A}{B}$$

where

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective from the day of such issue of Shares.

Under the New Companies Ordinance, the Shares shall have no par value. The Company is currently seeking legal advice regarding the above adjustment mechanism and will inform holders of the Option Convertible Bonds and the Possible Convertible Bonds of the advice as soon as practicable.

LETTER FROM THE BOARD

(iii) Capital distribution

If and whenever the Company shall pay or make any Capital Distribution (as defined in this paragraph) to the Shareholders, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such Capital Distribution (as defined in this paragraph) by the following fraction:—

$$\frac{A - B}{A}$$

where

A is the fair market value of one Share, as determined in good faith by the independent accountants acting as an expert, on the day immediately preceding the date on which the Capital Distribution (as defined in this paragraph) is made; and

B is the fair market value on the date of such Capital Distribution (as defined in this paragraph), as determined in good faith by the independent accountants acting as an expert, of the portion of the Capital Distribution which is attributable to one Share.

Such adjustment shall become effective on the date that such Capital Distribution (as defined in this paragraph) is actually made.

LETTER FROM THE BOARD

“**Capital Distribution**” means (a) any distribution of assets *in specie* charged or provided for in the accounts of the Company for any financial period (whenever paid or made and however described) but excluding a distribution of assets in specie *in lieu* of, and to a value not exceeding, a cash dividend which would not have constituted a Capital Distribution under (b) below (and for these purposes a distribution of assets *in specie* includes without limitation an issue of shares or other securities credited as fully or partly paid (other than Shares credited as fully paid) by way of capitalization of reserves); and (b) any cash dividend or distribution of any kind charged or provided for in the accounts of the Company for any financial period (whenever paid or made and however described) unless:—

- (x) and to the extent that it does not, when taken together with any dividend or distribution in cash or any distribution of assets *in specie* previously made or paid in respect of any financial period of the Company, exceed an amount equal to the aggregate of the consolidated cumulative net profits less the aggregate of any consolidated net losses (after taxation but including any net realized gains (less any losses) made on the disposal of investments and extraordinary items) attributable to Shareholders in respect of financial periods as shown in the audited consolidated accounts of the Group for such periods (provided that consolidated net profits shall exclude any amount arising as a result of any reduction of share capital, share premium account or capital redemption reserve but shall, subject thereto, include any profit transferred from any distributable reserves); or

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(y) (to the extent that (x) above does not apply) the rate of that dividend or distribution, together with all other dividends or distributions on the class of capital in question charged or provided for in the accounts of the Company for that period, does not exceed the aggregate rate of dividend or distribution on such class of capital charged or provided for in the accounts of the Company for the immediately preceding financial period. In computing such rates the value of distributions in specie shall be taken into account and such adjustments as are in the opinion of the independent accountants appropriate to the circumstances shall be made (including adjustments in the event that the lengths of such financial periods differ).

(iv) Issue of Shares by way of rights

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 95% of the fair market value of one Share, as determined in good faith by the independent accountants acting as an expert, on the day immediately preceding the date on which such issue or grant to Shareholders is made, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such issue or grant by the following fraction:—

$$\frac{A + B}{A + C}$$

where

A is the number of Shares in issue immediately before such grant or issue;

B is the number of Shares which the aggregate amount (if any) payable for the rights, or for the options or warrants or other rights issued by way of rights, and for the total number of Shares comprised therein would purchase at such fair market value per Share; and

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C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of the issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

(v) Issue of other securities by way of rights

If and whenever the Company shall:—

- (a) issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights; or
- (b) grant to all or substantially all Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares),

the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such issue, grant or offer by the following fraction:—

$$\frac{A - B}{A}$$

where

A is the fair market value of one Share, as determined in good faith by the independent accountants acting as an expert, on the day immediately preceding the date on which such issue or grant is made; and

B is the fair market value on the date of such grant is made as determined in good faith by the independent accountants acting as an expert, of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of the issue of the securities or grant of such rights, options or warrants (as the case may be).

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(vi) Issue of Shares other than by way of rights

If and whenever the Company shall wholly for cash:—

- (a) issue (otherwise than as mentioned in paragraph (iv) above) any Shares (other than Shares issued on the exercise of conversion rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares); or
- (b) issues or grants (otherwise than as mentioned in paragraph (iv) above) options, warrants or other rights to subscribe for or purchase Shares,

in each case at a price per Share which is less than 95% of the fair market value of one Share, as determined in good faith by the independent accountants acting as an expert, on the day immediately preceding the date of such issue or grant, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such issue or grant by the following fraction:—

$$\frac{A + B}{C}$$

where

- A is the number of Shares in issue immediately before the issue of such additional Shares;
- B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such fair market value per Share; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

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Such adjustment shall become effective on the date of the issue of such Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

(vii) Issue of Shares upon conversion or exchange

Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this paragraph, if and whenever the Company or any Subsidiary (otherwise than as mentioned in paragraphs (iv), (v) or (vi)), or (at the direction or request of or pursuant to any arrangements with the Company or any subsidiary) any other company, person or entity, shall issue wholly for cash any securities (other than the Possible Convertible Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription, at a consideration per Share which is less than 95% of the fair market value of one Share, as determined in good faith by the independent accountants acting as an expert, on the day immediately preceding the date of the issue of such securities, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such issue by the following fraction (“**Formula**”):—

$$\frac{A + B}{A + C}$$

where

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange of or upon exercise of the right of subscription attached to such securities would purchase at such fair market value per Share; and

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C is the maximum number of Shares to be issued upon conversion into or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of the issue of such securities.

(viii) Modification of rights of conversion or exchange

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in paragraph (vii) above (other than in accordance with the terms applicable to such securities) so that the consideration per Share receivable by the Company is less than 95% of the fair market value of one Share, as determined in good faith by the independent accountants acting as an expert, on the day immediately preceding the date of such modification, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such modification by the following fraction:—

$$\frac{A + B}{A + C}$$

where

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange, or upon exercise of the right of subscription attached to the securities so modified, would purchase at such fair market value per Share or, if lower, the existing conversion, exchange or subscription price; and

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C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate,

but giving credit in such manner as the independent accountants (whom the Company undertakes to engage for the purpose of this paragraph) shall, acting as an expert, consider appropriate (if at all) for any adjustment under this paragraph.

Such adjustment shall become effective on the date of such modification of the rights of conversion, exchange or subscription attaching to such securities.

(ix) Offers for Shares

If and whenever the Company or any subsidiary or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary) any other company, person or entity issues, sells or distributes any securities in connection with an offer pursuant to which Shareholders generally (meaning for these purposes the holders of at least 60% of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them (except where the conversion price falls to be adjusted under paragraphs (iv) to (vii) above), the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such issue by the following fraction:—

$$\frac{A - B}{A}$$

where

A is the fair market value of one Share, as determined in good faith by the independent accountants acting as an expert, on the day immediately preceding the date of such issue; and

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B is the fair market value on the date of such issue, as determined in good faith by the independent accountants, of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

Conversion Shares:

Assuming the Possible Convertible Bonds in the principal amount of up to HK\$15,660,000 are converted at the initial conversion price of HK\$0.18, a maximum of 87,000,000 new Shares will be allotted and issued.

Assuming the Possible Convertible Bonds in the principal amount of up to HK\$15,660,000 are converted at the Further Adjusted Conversion Price of HK\$0.10, a maximum of 156,600,000 new Shares will be allotted and issued.

The conversion Shares will be allotted and issued pursuant to the General Mandate.

Interest:

The Possible Convertible Bonds shall bear interest at a coupon rate of 10% per annum on the outstanding principal amount of the Possible Convertible Bond calculated from the initial date of issue of the Possible Convertible Bonds to and including the Possible Convertible Bonds Maturity Date (as defined below). The Interest shall be calculated on the basis of a 365-day year.

Maturity Date:

31 December 2015 (“**Possible Convertible Bonds Maturity Date**”)

Conversion Rights:

Each holder of the Possible Convertible Bonds shall have the right, exercisable during the Conversion Period (as defined below) to convert the whole or any part (in multiples of HK\$156,600.00) of the outstanding principal amount of the Possible Convertible Bonds held by such holder of Possible Convertible Bonds into such number of conversion Shares as will be determined by dividing the principal amount of the Possible Convertible Bonds to be converted by the conversion price in effect on the date of conversion.

No fraction of a Share shall be issued on conversion of the Possible Convertible Bonds. The Company shall pay a cash amount in HK\$ equal to such amount of Possible Convertible Bonds that is not converted.

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Limitations on conversion of the Possible Convertible Bonds: A holder of the Possible Convertible Bonds shall not exercise any conversion rights if, as a result of such exercise, it will cause the public float of the Company to be unable to meet the relevant requirements under the Listing Rules.

A holder of the Possible Convertible Bonds shall not exercise any conversion rights, and the Company shall not be required to issue any conversion Shares, if, as a result of the relevant exercise of the conversion rights, the holder of the Possible Convertible Bonds and/or parties acting in concert with it would be required to make a mandatory general offer under Rule 26 of the Takeovers Code for the Shares held by the Company's other Shareholders.

Redemption:

Redemption at maturity

All Possible Convertible Bonds which have not been redeemed or converted in accordance with the terms and conditions of the instrument of the Possible Convertible Bonds by the Possible Convertible Bonds Maturity Date, shall, at the absolute discretion of the Company (and regardless of whether or not the holders of the Possible Convertible Bonds concerned have requested for conversion of any or all such Possible Convertible Bonds into the Shares), either redeemed by the Company on the Possible Convertible Bonds Maturity Date at a redemption amount equal to 100% of the principal amount of such Possible Convertible Bonds, or be converted into the Share.

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Redemption on default

If any of the events (“**Events of Default**”) specified below occur, the Company shall forthwith give notice thereof to the holders of the Possible Convertible Bonds and each holder of the Possible Convertible Bonds may (without prejudice to any other rights and remedies available to the holders of the Possible Convertible Bonds), at its option, opt to convert their Possible Convertible Bonds in its entirety or, alternatively, give a notice of redemption to the Company in respect of part or all of the Possible Convertible Bonds held by it, whereupon such Possible Convertible Bonds shall become immediately due and payable at a redemption amount equal to 100% of the principal amount of such Possible Convertible Bonds. For any avoidance of doubt, there shall not be any redemption by any holder of the Possible Convertible Bonds prior to the Possible Convertible Bonds Maturity Date unless an Event of Default occurs. The Events of Default are as follows:—

- (i) any failure to pay the principal of the Possible Convertible Bonds when due and such failure continues for a period of seven (7) Business Days in the case of principal or ten (10) Business Days in the case of interest;
- (ii) any default made by the Company in the performance or observance of any undertaking, warranty or representation given by it under these terms (other than the covenant to pay the principal and interest in respect of the Possible Convertible Bonds) and such default is incapable of remedy (in which event no such notice as is referred to below shall be required), or if capable of remedy is not remedied within fifteen (15) Business Days of service by any holder of the Possible Convertible Bonds on the Company of notice requiring such default to be remedied;

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- (iii) any other present or future indebtedness of the Company or any of its major subsidiaries as defined in the instrument of the Possible Convertible Bonds (the “**Major Subsidiaries**”) for or in respect of any bonds, debentures, notes or similar instruments of indebtedness or any other monies borrowed or raised, becomes due and payable prior to its stated maturity otherwise than at the option (as the case may be) of the Company or the relevant Major Subsidiary, or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or the Company or any of its Major Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any such indebtedness provided that the aggregate amount of indebtedness and guarantees and indemnities in respect of which one or more events mentioned above have occurred equals or exceeds HK\$100,000,000 or its equivalent in any other currency provided that the provisions of this paragraph (iii) shall not apply to any alleged default if the Company or the relevant Major Subsidiary, as the case may be, is contesting the matter in good faith;
- (iv) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by a resolution of the holders of the Possible Convertible Bonds;

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- (v) a resolution is passed or an order of a court of competent jurisdiction is made for the winding up or dissolution of any Major Subsidiary except (a) for the purposes of or pursuant to and followed by a consolidation or amalgamation with or merger into the Company or any other subsidiary of the Company (“**Subsidiary**”), (b) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction (other than as described in (a) above) the terms of which shall have previously been approved by a resolution of the holders of the Possible Convertible Bonds, or (c) by way of a voluntary winding up or dissolution where there are surplus assets in such Major Subsidiary and such surplus assets attributable to the Company and/or any other Subsidiary are distributed to the Company and/or any such other Subsidiary;
- (vi) an encumbrancer takes possession or a receiver is appointed over the whole or a material part of the assets or undertaking of the Company or any Major Subsidiary;
- (vii) a distress, execution or seizure order before judgement is levied or enforced upon or sued out against the whole or a material part of the property, assets or revenues of the Company or any Major Subsidiary (as the case may be) and is not discharged or stayed within thirty (30) Business Days or such longer period as the holder of the Convertible Bonds, by a resolution of the holders of the Convertible Bonds, may consider appropriate in relation to the event concerned;
- (viii) the Company or any of its Major Subsidiaries is insolvent or unable to pay its debts as and when they fall due or the Company or any of its Major Subsidiaries shall initiate or consent to proceedings relating to itself under any applicable administration, bankruptcy, composition or insolvency law or scheme of arrangement while insolvent (except, for the avoidance of doubt, for the purposes of a dissolution or winding-up permitted under paragraphs (iv) or (v) above) or makes a general assignment for the benefit of, or enters into any composition with, its creditors;

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- (ix) proceedings shall have been initiated against the Company or any Major Subsidiary under any applicable bankruptcy, reorganisation or insolvency law, and such proceedings shall not have been discharged or stayed within fifteen (15) Business Days thereafter (or such longer period as the holder(s) of the Possible Convertible Bonds by a resolution of the holders of the Possible Convertible Bonds may consider appropriate in relation to the jurisdiction concerned;
- (x) it is or becomes unlawful for the Company to perform or comply with any of its obligations under the instrument of the Possible Convertible Bonds or any Possible Convertible Bonds, or due to no fault on the part of any holder of the Possible Convertible Bonds any such obligation is not or ceases to be enforceable or is claimed by the Company not to be enforceable;
- (xi) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or substantially all or (other than on arm's length terms or with respect to a part of the relevant entity's business or operations which has not materially contributed to the consolidated operating profit of the Company and its Subsidiaries for at least three years prior to the day on which this paragraph operates) a material part of the assets of the Company or any of its Major Subsidiaries;
- (xii) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Possible Convertible Bonds or the instrument of the Possible Convertible Bonds, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Possible Convertible Bonds or the instrument of the Possible Convertible Bonds admissible in evidence in the courts of Hong Kong, is not taken, fulfilled or done by the requisite time;

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(xiii) any breach of the representations, warranties and undertakings made by the Company to the holders of the Possible Convertible Bonds in reliance of which the holder(s) of the Possible Convertible Bonds subscribes to the Possible Convertible Bonds; or

(xiv) any event occurs which has an analogous effect to any of the events referred to in paragraphs (i) to (xiii) above.

Conversion Period: The period commencing from the date of issue of the Possible Convertible Bonds and ending on the date which falls on the fifth (5th) Business Day before the Possible Convertible Bonds Maturity Date, both dates inclusive.

Ranking: Shares issued upon exercise of the conversion rights shall rank *pari passu* in all respects with all other existing Shares outstanding at the date of conversion and all conversion Shares shall include rights to participate in all dividends and other distributions.

Transferability: Any transfer of the Possible Convertible Bonds shall be in respect of the whole or any part (in multiples of HK\$156,600.00) of the outstanding principal amount of the Possible Convertible Bonds.

Application for listing: No application will be made by the Company to the Stock Exchange for listing of the Possible Convertible Bonds. Application will be made by the Company to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the conversion Shares.

REASONS FOR THE PROPOSED GRANT OF THE SPECIFIC MANDATE TO ISSUE FURTHER CONVERSION SHARES

The Company is incorporated in Hong Kong with limited liability. The Group is principally engaged in investment holding, treasury investments and the provision of loan financing.

Having considered that (i) the remaining capacity under the General Mandate can only issue up to 83,549,773 Shares as at the Latest Practicable Date, which is insufficient for the issuance of the Further Conversion Shares as at the Latest Practicable Date; and (ii) the proposed grant of Specific Mandate would allow the Company to ease its financial liability through settling the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Existing CB Options by way of issuance of the conversion Shares rather than by cash upon redemption at maturity, which may have negative impact on

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the working capital of the Company. The Directors are of the view that the granting of the Specific Mandate is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The following table summarises the equity fund raising activities of the Group in the 12-month period immediately preceding the Latest Practicable Date.

Date(s) of announcement/ circular	Event	Gross proceeds	Intended use of proceeds as stated in the announcement(s)/ circular	Actual use of proceeds
28 February 2013, 15 March 2013, 22 August 2013, 16 October 2013, 21 October 2013, 19 December 2013 and 18 February 2014	Placing of convertible bonds under specific mandate	HK\$60,750,000	To be used by the Company as overhead expenses, repayment of outstanding indebtedness, funding of the loan financing businesses and future investments of the Group	Note

Note:

On 19 December 2013, the Placing for the first Tranche has been completed and Convertible Bonds in the aggregate principal amount of HK\$17,550,000 has been issued by the Company, which are convertible into 130,000,000 new Shares at the conversion price of HK\$0.135. On 17 February 2014, the Placing for the Remaining Tranches have been completed and Convertible Bonds in the aggregate principal amount of HK\$43,200,000 has been issued by the Company, which are convertible into 320,000,000 new Shares at the conversion price of HK\$0.135. The net proceeds from the completion of the Placing has been allocated for overhead expenses, repayment of outstanding indebtedness, funding of the loan financing businesses and as the deposit for a very substantial acquisition of the Company. Please refer to the announcement of the Company dated 6 December 2013 in relation to the very substantial acquisition for further details.

Save for the above, the Company had not conducted any equity fund raising activities in the 12 months immediately preceding the Latest Practicable Date.

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EFFECT ON SHAREHOLDING STRUCTURE

For illustrative purpose only, set out below is a summary of the shareholdings in the Company (i) as at the Latest Practicable Date; (ii) following the issue of all conversion Shares upon the exercise of subscription and conversion rights attached to the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the 86 Existing CB Options in full at the initial conversion price of HK\$0.18 (assuming there are no other changes in the issued share capital of the Company); (iii) following the issue of all conversion Shares upon the exercise of subscription and conversion rights attached to the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the 86 Existing CB Options in full at the Adjusted Conversion Price (assuming (a) there are no other changes in the issued share capital of the Company and (b) there are no further adjustments to the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds); (iv) following the issue of all conversion Shares upon the exercise of subscription and conversion rights attached to the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the 86 Existing CB Options in full at the Further Adjusted Conversion Price (assuming (a) there are no other changes in the issued share capital of the Company and (b) there are no further adjustments to the conversion price of the Option Convertible Bonds and the Possible Convertible Bonds); and (v) upon (iv) as mentioned above and upon full conversion of the Outstanding Convertible Securities.

	(i) As at the Latest Practicable Date		(ii) following the issue of all conversion Shares upon the exercise of subscription and conversion rights attached to the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Existing CB Options in full at the initial conversion price of HK\$0.18		(iii) following the issue of all conversion Shares upon the exercise of subscription and conversion rights attached to the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Existing CB Options in full at the Adjusted Conversion Price		(iv) following the issue of all conversion Shares upon the exercise of subscription and conversion rights attached to the Option Convertible Bonds and the Possible Convertible Bonds to be subscribed upon exercise of the Existing CB Options in full at the Further Adjusted Conversion Price		(v) following (iv) and upon full conversion of the Outstanding Convertible Securities	
	No. of Shares	approx.	No. of Shares	approx.	No. of Shares	approx.	No. of Shares	approx.	No. of Shares	approx.
Holder(s) of the Option Convertible Bonds (Note 1)	—	—	8,700,000	1.33%	11,185,714	1.65%	15,660,000	2.17%	15,660,000	1.49%
Holder(s) of the Existing CB Options (Note 1)	—	—	74,820,000	11.44%	96,197,143	14.19%	134,676,000	18.68%	134,676,000	12.77%
Holder(s) of the Convertible Bonds (Note 2)	—	—	—	—	—	—	—	—	320,000,000	30.35%
Holder(s) of the share options (Note 3)	—	—	—	—	—	—	—	—	13,488,000	1.28%
Existing Shareholders	<u>570,585,466</u>	<u>100.00%</u>	<u>570,585,466</u>	<u>87.23%</u>	<u>570,585,466</u>	<u>84.16%</u>	<u>570,585,466</u>	<u>79.15%</u>	<u>570,585,466</u>	<u>54.11%</u>
Total	<u>570,585,466</u>	<u>100.00%</u>	<u>654,105,466</u>	<u>100.00%</u>	<u>677,968,323</u>	<u>100.00%</u>	<u>720,921,466</u>	<u>100.00%</u>	<u>1,054,409,466</u>	<u>100.00%</u>

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Notes:

1. References are made to the announcements of the Company dated 24 July 2012 and 8 October 2012, the Company and the relevant placing agent entered into the second placing agreement in relation to the placing of the CB Options which allows the holder of the CB Options to subscribe for convertible bonds of the Company in an aggregate principal amount of up to HK\$15,660,000 that are convertible into 87,000,000 new Shares at the initial conversion price of HK\$0.18.

Immediately prior to the Latest Practicable Date, 14 out of the 100 CB Options had been exercised to subscribe for convertible bonds of the Company in the principal amount of HK\$2,192,400, among which the convertible bonds in the principal amount of HK\$626,400 had been further converted into the Exercised CB Option Shares.

As at the Latest Practicable Date, there are (i) the Option Convertible Bonds in the principal amount of HK\$1,566,000 and (ii) the Possible Convertible Bonds in the principal amount of HK\$13,467,600 to be subscribed by the holders of the CB Options. Based on the Further Adjusted Conversion Price, the aggregate of (i) and (ii) of the aforesaid is convertible into up to 150,336,000 new Shares upon full exercise of the conversion rights attached thereto.

2. References are made to the announcements of the Company dated 28 February 2013, 15 March 2013, 22 August 2013, 16 October 2013 and 19 December 2013 in relation to, among other things, the placing of Convertible Bonds in the principal amount of HK\$60,750,000 which are convertible into up to a maximum of 450,000,000 conversion shares at the initial conversion price of HK\$0.135. The completion of the first Tranche in the aggregate principal amount of HK\$17,550,000 took place on 19 December 2013, and on 2 January 2014, the entire first Tranche has been converted into 130,000,000 new Shares at the conversion price of HK\$0.135.

On 17 February 2014, the Placing for the Remaining Tranches has been completed and Convertible Bonds in the aggregate principal amount of HK\$43,200,000 has been issued by the Company, which are convertible into 320,000,000 new Shares at the conversion price of HK\$0.135.

3. The share options refer to the outstanding share options under a share option scheme of the Company approved on 22 May 2008.

APPLICATION FOR LISTING

Application will be made to the listing committee of the Stock Exchange for the approval for the listing of, and permission to deal in, the Further Conversion Shares.

EGM

The EGM will be held at LG2, The Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong on Thursday, 3 April 2014 at 11:30 a.m. for the purpose of considering and, if thought fit, approving the grant of a specific mandate to issue and allot the Further Conversion Shares pursuant to the terms and conditions as set out in the Bond Instrument from time to time. The notice convening the EGM is set out on pages 35 to 36 of this circular. A form of proxy for use at the EGM is also enclosed to this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at a general meeting must be taken by poll, except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

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Whether or not you are able to attend the EGM and/or vote at the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same at the Company's registered office of Unit F, 7/F., China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong, as soon as possible, in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish (as the case may be).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Director or Shareholder has a material interest in the proposed grant of the Specific Mandate to issue Further Conversion Shares and accordingly no Shareholder is required to abstain from voting on the resolution(s) to be proposed at the EGM.

RECOMMENDATION

The Directors consider that the proposed grant of the Specific Mandate to issue Further Conversion Shares is in the interests of the Company and the Shareholders as a whole and is for the benefits of the Shareholders, and accordingly, recommends the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the proposed grant of the Specific Mandate to issue Further Conversion Shares and the transactions contemplated thereunder.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

By Order of the Board
The Hong Kong Building and Loan Agency Limited
So Yuen Chun
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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of The Hong Kong Building and Loan Agency (the “**Company**”) will be held at LG2, The Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong on Thursday, 3 April 2014 at 11:30 a.m. to consider and, if thought fit, pass the following resolution(s) as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the issuance and allotment of any additional conversion shares in the share capital of the Company (the “**Further Conversion Shares**”) as a result of the adjustment to the conversion price of the convertible bonds up to the principal amount of HK\$1,566,000 (the “**Option Convertible Bonds**”) and the convertible bonds up to the principal amount of HK\$13,467,000 to be subscribed upon exercise of the existing 86 options issued by the Company to subscribe for convertible bonds (the “**Possible Convertible Bonds**”) due to exercise of the rights attaching to the Option Convertible Bonds and the Possible Convertible Bonds, and any subsequent adjustments on or before the maturity date of the Option Convertible Bonds and the Possible Convertible Bonds in accordance with the terms and conditions of the Option Convertible Bonds and the Possible Convertible Bonds be and is hereby approved, confirmed and ratified; and

NOTICE OF EGM

- (b) the Directors be and are hereby authorised, as a specific mandate, to allot, issue and otherwise deal with the Further Conversion Shares which may be issued by the Company upon full exercise of the conversion rights attaching to the Option Convertible Bonds and the Possible Convertible Bonds based on the conversion price and any subsequent adjustments on or before the maturity date of the Option Convertible Bonds and the Possible Convertible Bonds in accordance with its terms and conditions.”

By order of the Board
The Hong Kong Building and Loan Agency Limited
So Yuen Chun
Executive Director

Hong Kong, 18 March 2014

Notes:

- (1) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company's registered office of Unit F, 7/F., China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (2) In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holders, seniority being determined by the order in which names stand in the register of members.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting in person at the extraordinary general meeting or any adjournment.
- (4) If Typhoon Signal No. 8 or above, or a “black” rainstorm warning is in effect any time after 8:00 a.m. on the date of the extraordinary general meeting, the meeting will be postponed. The Company will post an announcement on the Company's website <http://www.hkbla.com.hk> and the “Latest Company Announcements” page of the Stock Exchange website to notify Shareholders of the date, time and place of the rescheduled meeting.
- (5) As at the date of this notice, the Board comprises Mr. So Yuen Chun and Mr. Yeung Kwok Leung being executive Directors; Mr. Lam Kwok Hing, Wilfred, J.P. being non-executive Director; and Mr. Yeung Wai Hung, Peter, Mr. Lam Raymond Shiu Cheung and Ms. Yuen Wai Man being independent non-executive Directors.