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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **The Hong Kong Building and Loan Agency Limited** (the “Company”), you should at once hand this circular together with the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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The Hong Kong Building and Loan Agency Limited
香港建屋貸款有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 145)

**CONNECTED TRANSACTION –
ISSUE OF NEW SHARES UNDER GENERAL MANDATE
FOR SCHEME OF ARRANGEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**

 **F.E. Corporate Finance Advisory Limited**

A notice convening the extraordinary general meeting of the Company (the “EGM”) to be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 26 July 2019 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company’s share registrar, Tricor Tengis Limited, of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong (and with effect from 11 July 2019 onwards, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong) as soon as possible, and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof (as the case may be). 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 (as the case may be) if you so wish.

11 July 2019

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 14 June 2019 in relation to, among other things, the Connected Transaction
“associate(s)”	has the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	The Hong Kong Building and Loan Agency Limited (Stock Code: 145), a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Connected Transaction”	the connected transaction in relation to issue of the Promissory Notes Shares and the Interest Shares by the Company to the State Energy under the General Mandate
“Convertible Bonds”	the convertible bonds issued by the Company under the Specific Mandate with original terms and conditions in the outstanding principal amount of HK\$945.2 million at 3% coupon with the conversion rights exercisable at the Conversion Price and maturing on 31 December 2023
“Conversion Price”	the initial conversion price of HK\$0.8 per Conversion Share upon the exercise of the conversion rights attaching to the Convertible Bonds

DEFINITIONS

“Conversion Share(s)”	up to 1,181,447,664 Shares to be allotted and issued by the Company at the price of HK\$0.8 per Share upon redemption of the Convertible Bonds or any principal amount thereof under and pursuant to the Specific Mandate
“Court”	the High Court of Hong Kong and any court capable of hearing appeals therefrom
“Creditors”	pursuant to the Scheme, the creditors of the Company whose claims arose out of or had their origin in any matter occurring before the Effective Date and whether known or unknown, whether present, future or contingent, whether sounding in equity, contract, tort or under statute and whether liquidated or yet to be ascertained or whose claims against the Company which would be provable in a winding up of the Company under either the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Companies Ordinance if an order for the winding up of the Company were made on the Effective Date, including holders of the Convertible Bonds and the Promissory Notes, but excluding the contingency liability under a guarantee dated 13 November 2017 executed by the Company in favour of CIAM in respect of the debt in the sum of HK\$23,965,000 (principal and interest inclusive) due and owing by an indirect subsidiary of the Company to CIAM, which has matured and is due for repayment, which is carved out of, and will not be compromised under, the Scheme
“Despatch Date”	3 June 2019, being the date of despatch of the Scheme document (comprising an explanatory statement and the scheme of arrangement between the Company and the Creditors, notice for scheme meeting, form of notice of claims and form of proxy) to the Creditors
“Director(s)”	the director(s) of the Company
“Effective Date”	the registration date of the order sanctioning the Scheme granted by the Court with the Companies Registry in Hong Kong tentative to be 30 August 2019 under the Scheme

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Connected Transaction and allotment and issue of the Promissory Notes Shares and the Interest Shares
“General Mandate”	the general mandate which was granted to the Directors pursuant to an ordinary resolution passed at the Company’s annual general meeting on 3 June 2019 to allot and issue up to 461,300,563 Shares, representing 20% of the total number of Shares in issue as at the date of passing such resolution
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the Connected Transaction
“Independent Financial Adviser”	F.E. Corporate Finance Advisory Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Connected Transaction
“Interest”	interest accrued on the outstanding principal amount of the Convertible Bonds
“Independent Shareholders”	Shareholders other than the Creditors
“Interest Share(s)”	Shares to be allotted and issued by the Company under the General Mandate at the Issue Price to settle the Interest

DEFINITIONS

“Issue Price”	the issue price of the Promissory Notes Shares and the Interest Shares, being HK\$0.8 per Share
“Latest Practicable Date”	8 July 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Other Creditor(s)”	the Creditors under the Scheme other than State Energy
“Promissory Notes”	non-interest bearing promissory notes issued by the Company in the outstanding principal amount of HK\$127.4 million that have fallen due on 31 December 2018
“Promissory Notes Share(s)”	159,250,000 Shares for settlement and discharge of all outstanding principal amount of the Promissory Notes at the Issue Price under the General Mandate
“Scheme”	the proposed scheme of arrangement for the Company to be entered into between the Company and the Creditors pursuant to Sections 670 and 673 of the Companies Ordinance with, or subject to, the approval and any modification, addition or conditions approved or imposed by the Court
“Scheme Meeting”	the meeting of the Creditors convened and held on 28 June 2019 at the direction of the Court for the purpose of considering and, if thought fit, approving the Scheme
“Scheme Shares”	the Conversion Shares, the Promissory Notes Shares and the Interest Shares
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate granted by the Shareholders at the extraordinary general meeting of the Company held on 30 April 2014 to issue and allot new Shares at the Conversion Price upon exercise of conversion rights attached to the Convertible Bonds
“State Energy”	State Energy HK Limited, a substantial shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



The Hong Kong Building and Loan Agency Limited
香港建屋貸款有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 145)

Executive Directors

Dr. Li Ai Guo

Mr. Chong Kok Leong

Mr. Zhuang Miaozhong

Independent Non-executive Directors

Mr. Choy Hiu Fai, Eric

Mr. Huang Lizhi

Mr. Ng Kay Kwok

Registered office:

Rooms 1801-4

Harcourt House

39 Gloucester Road

Wanchai

Hong Kong

11 July 2019

To the Shareholders:

Dear Sirs or Madams,

**CONNECTED TRANSACTION –
ISSUE OF NEW SHARES UNDER GENERAL MANDATE
FOR SCHEME OF ARRANGEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

References are made to the Company's announcements dated 10 January 2019, 15 May 2019, 4 June 2019, 28 June 2019, 4 July 2019 and the Announcement in relation to, among other things, the Scheme.

The purpose of this circular is to provide you with amongst others, (i) further information on the Connected Transaction under the General Mandate; (ii) the recommendation letter from the Independent Board Committee to the Independent Shareholders in respect of the Connected Transaction; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders in respect of the Connected Transaction; and (iv) the notice convening the EGM.

LETTER FROM THE BOARD

BACKGROUND OF THE SCHEME

According to the Scheme, the outstanding indebtedness of the Company include, but is not limited to, (i) Convertible Bonds in the principal amount of approximately HK\$945.2 million as at 31 December 2018; (ii) the Interest of the Convertible Bonds in the amount of approximately HK\$62.8 million as at the Effective Date; and (iii) Promissory Notes in the principal amount of approximately HK\$127.4 million as at 31 December 2018.

The Promissory Notes matured on 31 December 2018. Failure to repay the Promissory Notes on their maturity has led to cross default of the Convertible Bonds, notwithstanding the latter's maturity date on 31 December 2023. As such, the Company proposed to enter into and implement the Scheme to settle the aforesaid liabilities owed to the Creditors. The Scheme Meeting has been held on 28 June 2019. As announced by the Company on 28 June 2019, the Scheme was approved by the requisite statutory majorities of the Creditors, and the Effective Date is expected to be 30 August 2019.

If the Scheme is implemented on the Effective Date (30 August 2019), the Company shall allot and issue Shares for the entire Scheme up to (i) 1,181,447,664 Conversion Shares at the price of HK\$0.8 per Share to settle the outstanding principal amount of the Convertible Bonds in accordance with the original terms and conditions of the Convertible Bonds under the Specific Mandate; (ii) 159,250,000 Promissory Notes Shares for settlement and discharge of all outstanding principal amount of the Promissory Notes on the basis of HK\$0.8 per Share under the General Mandate; and (iii) 78,558,180 Interest Shares to settle outstanding Interest under the General Mandate as at the Effective Date.

However, taking into account that the Scheme will become effective pending, inter alia, (i) the Independent Shareholders' approval for the Connected Transaction; and (ii) the actual date of the Court hearing and the Effective Date of the Scheme will depend on the availability of the Court and the actual length and scope of the relevant hearings, if the aforementioned cannot be fulfilled on or before 30 August 2019, the Interest will be further accrued. The Board after seeking legal advice considered it would be prudent to prepare for a delayed Effective Date, preliminary estimated to be 31 December 2019.

As such, the Board proposed to seek for the listing approval of up to 90,502,130 Interest Shares to be allotted and issued to the Creditors which represents the Interest accrued up to HK\$72,401,702 as at 31 December 2019. In addition, the Board also proposed to seek for Independent Shareholders' approval on the issue of up to 8,707,092 Interest Shares as at 31 December 2019 to be issued to State Energy in case the Effective Date is postponed.

LETTER FROM THE BOARD

The aggregate of the maximum number of the Interest Shares (as at 31 December 2019) and Promissory Notes Shares to be issued to the Creditors up to 249,752,130 Shares, represents 10.83% to the existing issued share capital of the Company and 6.68% as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before the issue of the Conversion Shares, the Interest Shares and the Promissory Notes Shares pursuant to the Scheme.

Tentative Timetable of the Scheme

The tentative timetable of the Scheme is as follows:

EGM	26 July 2019
Court hearing for sanctioning the Scheme	20 August 2019
Effective Date of the Scheme	30 August 2019
Closing date of the Scheme, by which date the Scheme Shares shall be issued to each of the Creditors	25 October 2019

Note:

The actual date of the Court hearing, the Effective Date and the closing date of the Scheme will depend on the availability of the Court and the actual length and scope of the relevant hearings.

After the Creditors approved the Scheme by the requisite statutory majorities at the Scheme Meeting held on 28 June 2019, the sanction of the Court will be sought for the Scheme. After sanction of the Court have been obtained, the sanctioning order of the Court will be filed with the Companies Registry in Hong Kong for registration, and the Scheme will become effective and binding on all of the Creditors on the Effective Date. The administrator of the Scheme will then assign the cut-off date of the Scheme for filing all notice of claims from the Creditors to the Company and notify the final amount of the claims of each of the Creditors. All the Scheme Shares will be allotted and issued to each of the Creditors on the closing date of the Scheme.

LETTER FROM THE BOARD

CONNECTED TRANSACTION – ISSUE OF NEW SHARES UNDER GENERAL MANDATE FOR SCHEME OF ARRANGEMENT

Issue of Interest Shares and Promissory Notes Shares to a connected person under General Mandate

The Interest Shares

If the Scheme is implemented on the Effective Date (30 August 2019), the Company will be indebted to State Energy for HK\$224,378,813 in which (i) HK\$90,932,430 for the outstanding principal amount of the Convertible Bonds; (ii) HK\$6,046,383 for the Interest of the Convertible Bonds; and (iii) HK\$127,400,000 for the outstanding principal amount of the Promissory Notes.

For the settlement of the Interest accrued on the Convertible Bonds as at the Effective Date (30 August 2019), the Company shall allot and issue 7,557,980 Interest Shares to State Energy under the General Mandate at the price of HK\$0.8 per Share. And the Promissory Notes is non-interest bearing.

However, taking into account that the Scheme will become effective pending, inter alia, (i) Independent Shareholders' approval for the Connected Transaction; and (ii) the actual date of the Court hearing and the Effective Date of the Scheme will depend on the availability of the Court and the actual length and scope of the relevant hearings, if the aforementioned cannot be fulfilled on or before 30 August 2019, the Interest will be further accrued. The Board after seeking legal advice considered it would be prudent to prepare for a delayed Effective Date, preliminary estimated to be 31 December 2019.

As such, the Board proposed to seek for the listing approval of up to 8,707,092 Interest Shares of the Convertible Bonds to be issued to State Energy which represents the Interest accrued on the Convertible Bonds of up to HK\$6,965,673 as at 31 December 2019.

In addition, the Board also proposed to seek for Independent Shareholders' approval on the issue of up to 8,707,092 Interest Shares of the Convertible Bonds as at 31 December 2019 to be issued to State Energy in case the Effective Date is postponed. If the Effective Date is further postponed to after 31 December 2019, the Board shall update the Shareholders and seek for further Independent Shareholders' approval for the further Interest Shares that may be issued.

LETTER FROM THE BOARD

If the Effective date falls on 30 August 2019, 7,557,980 Interest Shares to be allotted and issued to State Energy under the General Mandate represent (i) approximately 0.33% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 0.20% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before the issue of the Scheme Shares pursuant to the Scheme.

If the Effective Date falls on 31 December 2019 or earlier but after 30 August 2019 (details as referred in the section headed “BACKGROUND OF THE SCHEME” in this circular), the maximum number of 8,707,092 Interest Shares to be allotted and issued under the General Mandate to State Energy represent (i) approximately 0.38% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 0.23% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before the issue of the Scheme Shares pursuant to the Scheme.

The Promissory Notes Shares

State Energy is also the holder of the non-interest bearing Promissory Notes. Pursuant to the Scheme and upon its implementation on the Effective Date, the Company shall allot and issue 159,250,000 Promissory Notes Shares for settlement and discharge of all outstanding principal amount of the Promissory Notes on the basis of HK\$0.8 per Share under the General Mandate.

The 159,250,000 Promissory Notes Shares to be allotted and issued to State Energy under the General Mandate represent (i) approximately 6.90% of the existing issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 4.27% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before completion of the issue of Scheme Shares to Independent Shareholders and the Connected Transaction as at the Effective Date (30 August 2019); and (iii) approximately 4.26% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before completion of the issue of Scheme Shares to Independent Shareholders and the Connected Transaction as at 31 December 2019.

LETTER FROM THE BOARD

The Interest Shares and the Promissory Notes Shares

If the Scheme is implemented on the Effective Date (30 August 2019), 166,807,980 new Shares which comprise 159,250,000 Promissory Notes Shares and 7,557,980 Interest Shares will be allotted and issued to State Energy under the General Mandate, which represent (i) approximately 7.23% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 4.48% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before completion of the issue of Scheme Shares to Independent Shareholders and the Connected Transaction as at the Effective Date.

If the Effective Date falls on 31 December 2019 or earlier but after 30 August 2019 (details as referred in the section headed “BACKGROUND OF THE SCHEME” in this circular), the maximum number of 167,957,092 new Shares which comprise 159,250,000 Promissory Notes Shares and 8,707,092 Interest Shares will be allotted and issued to State Energy under the General Mandate, which represent (i) approximately 7.28% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 4.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before completion of the issue of Scheme Shares to Independent Shareholders and the Connected Transaction as at 31 December 2019.

As at the Latest Practicable Date, none of the Directors has a material interest in the issue of the Interest Shares and Promissory Notes Shares, and no Director is required to abstain from voting on the board resolution to approve the Connected Transaction.

Issue Price of the Interest Shares and the Promissory Notes Shares

The Issue Price of HK\$0.8 per Share represents:

- (a) a premium of approximately 1,130.8% to the closing price of HK\$0.065 per Share as quoted on the Stock Exchange as at the Despatch Date;
- (b) a premium of approximately 1,127.0% to the average closing price of HK\$0.0652 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares immediately prior to the Despatch Date; and
- (c) a premium of 900% to the closing price of HK\$0.08 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

LETTER FROM THE BOARD

As disclosed in the annual report of the Company for the year ended 31 December 2018, the Company had net liabilities of approximately HK\$881 million as at 31 December 2018.

The Issue Price was determined with reference to the Conversion Price. As the Convertible Bonds, the Promissory Notes and the Interests are originating from the same transaction as announced by the Company dated 6 December 2013 and it represents a premium to the current market price of the Shares, the Directors are of the view that it is fair and reasonable and to the best interest of the Company and the Shareholders as a whole.

RANKING OF THE PROMISSORY NOTES SHARES AND THE INTEREST SHARES

The Promissory Notes Shares and the Interest Shares will rank, upon issue, *pari passu* in all respects with the Shares in issue on the date of the allotment and issue of the Promissory Notes Shares and the Interest Shares.

APPLICATION FOR LISTING

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Promissory Notes Shares and the Interest Shares.

INFORMATION OF STATE ENERGY

State Energy is a company incorporated in Hong Kong with limited liability since 2011 and is with its base in Hong Kong. It distributes bulk commodities including non-ferrous metal, chemicals, and electronic products. As at the Latest Practicable Date, State Energy is interested in 454,268,172 Shares, representing approximately 19.70% of the issued Shares. State Energy is a substantial shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF THE ISSUE OF THE INTEREST SHARES AND PROMISSORY NOTES SHARES

The Group is principally engaged in treasury investments, provision of loan financing and design and provision of energy saving solutions.

As disclosed in the annual report of the Group for the financial year ended 31 December 2018, the Group had net current liabilities of approximately HK\$1,076,923,000 and net liabilities of approximately HK\$880,991,000. The Board is in the opinion upon the successful implementation of the proposed Scheme, it would have the effect of discharging the substantial amount of the existing debt, and would substantially improve the financial position of the Group.

LETTER FROM THE BOARD

In view of (i) the huge premium of the Issue Price to the current market price of the Shares; (ii) no cash outflow of the Group; and (iii) the positive effect to the financial position of the Group, the Board (including the independent non-executive Directors) are of the view that it is fair and reasonable and to the best interest of the Company and the Shareholders as a whole.

Under the Scheme, the aggregate amount by issuance of the Scheme Shares as at the Effective Date (30 August 2019) is approximately HK\$1,135.4 million which will be used to settle the liabilities of Convertible Bonds plus Interest and Promissory Notes amounted to approximately HK\$1,135.4 million pursuant to the Scheme.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any fund raising activities in the past twelve months immediately prior to the Latest Practicable Date.

LETTER FROM THE BOARD

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Scenario 1

As at the Effective Date, the overall effect on the shareholdings in the Company of various parties as a result of the Scheme is set out in the following table (i) as at the Latest Practicable Date; and (ii) immediately after implementation of the Scheme for illustration purpose only:

	(i) As at the Latest Practicable Date		(ii) Immediately after implementation of the Scheme					Approx.	
	No. of Shares	Approx.	No. of Shares		Interest Shares as at the Effective Date		Total Shares		
			Existing Shares	Conversion Shares	Promissory Notes Shares				
The substantial Shareholders									
Hong Kong Mengzai Material Co., Limited	384,416,000	16.67%	384,416,000	–	–	–	384,416,000	10.32%	
State Energy (Note 1)	454,268,172	19.70%	454,268,172	113,665,538	159,250,000	7,557,980	734,741,690	19.72%	
Other Creditors									
CITIC International Assets Management Limited and its associates (Note 2)	102,552,205	4.45%	102,552,205	902,501,163	–	60,010,146	1,065,063,514	28.59%	
Cheng Lut Tim (Note 3)	–	–	–	5,000,000	–	332,466	5,332,466	0.14%	
Lo Shao Chi Julian (Note 3)	–	–	–	2,500,000	–	166,233	2,666,233	0.07%	
Zhao Xiao Hua (Note 3)	–	–	–	1,250,000	–	83,117	1,333,117	0.04%	
Spurrey Limited (Note 3)	–	–	–	91,538,575	–	6,086,689	97,625,264	2.62%	
Carbon Reserve Investments Limited (Note 4)	7,001,160	0.30%	7,001,160	64,992,388	–	4,321,549	76,315,097	2.05%	
Public Shareholders	1,358,265,279	58.89%	1,358,265,279	–	–	–	1,358,265,279	36.45%	
Total	2,306,502,816	100.00%	2,306,502,816	1,181,447,664	159,250,000	78,558,180	3,725,758,660	100.00%	

LETTER FROM THE BOARD

Scenario 2

As at 31 December 2019, the overall effect on the shareholdings in the Company of various parties as a result of the Scheme is set out in the following table (i) as at the Latest Practicable Date; and (ii) immediately after implementation of the Scheme for illustration purpose only:

	(i) As at the Latest Practicable Date		(ii) Immediately after implementation of the Scheme					Approx.
	No. of Shares	Approx.	Existing Shares	Conversion Shares	Promissory Notes Shares	Interest Shares as at 31 December 2019	Total Shares	
The substantial Shareholders								
Hong Kong Mengzai Material Co., Limited	384,416,000	16.67%	384,416,000	-	-	-	384,416,000	10.28%
State Energy (Note 1)	454,268,172	19.70%	454,268,172	113,665,538	159,250,000	8,707,092	735,890,802	19.69%
Other Creditors								
CITIC International Assets Management								
Limited and its associates (Note 2)	102,552,205	4.45%	102,552,205	902,501,163	-	69,134,062	1,074,187,430	28.74%
Cheng Lut Tim (Note 3)	-	-	-	5,000,000	-	383,014	5,383,014	0.14%
Lo Shao Chi Julian (Note 3)	-	-	-	2,500,000	-	191,507	2,691,507	0.07%
Zhao Xiao Hua (Note 3)	-	-	-	1,250,000	-	95,754	1,345,754	0.04%
Spurrey Limited (Note 3)	-	-	-	91,538,575	-	7,012,106	98,550,681	2.64%
Carbon Reserve Investments Limited								
(Note 4)	7,001,160	0.30%	7,001,160	64,992,388	-	4,978,595	76,972,143	2.06%
Public Shareholders	1,358,265,279	58.89%	1,358,265,279	-	-	-	1,358,265,279	36.34%
Total	2,306,502,816	100.00%	2,306,502,816	1,181,447,664	159,250,000	90,502,130	3,737,702,610	100.00%

Notes:

- As State Energy is a substantial shareholder of the Company, it is a connected person of the Company under the Listing Rules. These Shares comprise (i) 454,268,172 Shares which is beneficially owned by State Energy and (ii) 113,665,537 Conversion Shares to be allotted and issued to State Energy under the Scheme. Mr. Liu Quanhui (“**Mr. Liu**”) and Ms. Niu Fang (“**Ms. Niu**”) are interested in State Energy by 53.3% and 46.7% respectively¹. By virtue of the SFO, Mr. Liu and Ms. Niu are deemed to be interested in the Shares held by State Energy. To the best of the Directors’ knowledge, information and belief, as at the Latest Practicable Date, Mr. Liu and Ms. Niu are the ultimate beneficial owners of these Shares.

¹ References are made to the disclosure of interests of the Company on 2 March 2017. (<http://sdinotice.hkex.com.hk/filing/di/NSForm1.aspx?fn=85459&sa2=as&sid=21150104&corp=Hong+Kong+Building+and+Loan+Agency+Ltd.%2c+The&sd=11%2f02%2f2004&ed=15%2f06%2f2017&sa1=c1&scsd=03%2f10%2f2003&sced=03%2f10%2f2017&sc=145&src=MAIN&lang=EN&> and <http://sdinotice.hkex.com.hk/filing/di/NSForm1.aspx?fn=85457&sa2=as&sid=21150104&corp=Hong+Kong+Building+and+Loan+Agency+Ltd.%2c+The&sd=11%2f02%2f2004&ed=15%2f06%2f2017&sa1=c1&scsd=03%2f10%2f2003&sced=03%2f10%2f2017&sc=145&src=MAIN&lang=EN&>)

LETTER FROM THE BOARD

2. Save for the 102,552,205 Shares held by CITIC International Assets Management Limited and its associates (the “**CIAM**”), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, CIAM is not a connected person to the Company as at the Latest Practicable Date. These Shares comprise (i) 102,552,205 Shares which is beneficially owned by CIAM and (ii) 902,501,162 Conversion Shares to be allotted and issued to CIAM under the Scheme. CIAM is owned as to and 46% by CITIC International Financial Holdings Limited (“**CIFH**”), 19% by ITOCHU Corporation, 20% by Ithmaar Holding B.S.C. and 15% by CSI AMC Company Limited². CIFH is a wholly-owned subsidiary of China CITIC Bank Corporation Limited (“**China CITIC Bank**”). China CITIC Bank is over 60% indirectly owned by CITIC Limited (“**CITIC**”)³, 24.78% directly owned by Hong Kong Securities Clearing Company Nominees Limited and approximately 10% directly owned by other public shareholders⁴. CITIC is indirectly owned as to 58.13% by CITIC Group Corporation (“**CITIC Group**”), approximately 20% directly owned by Chia Tai Bright Investment Company Limited and 21.87% directly owned by other public shareholders⁵. By virtue of the SFO, each of CIFH, China CITIC Bank, CITIC and CITIC Group are deemed to be interested in the Shares held by CIAM. To the best of the Directors’ knowledge, information and belief, as at the Latest Practicable Date, CITIC Group is the ultimate beneficial owner of these Shares, and CITIC Group and its ultimate beneficial owners are independent of and not connected with the Company and its connected person(s).
3. Each of the Other Creditors who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected person(s) as at the Latest Practicable Date.
4. To the best of the Directors’ knowledge, information and belief, as at the Latest Practicable Date, Carbon Reserve Investments Limited is wholly owned by CECEP (Hong Kong) Investment Co., Limited (“**CECEP HK**”), and CECEP HK is wholly owned by China Energy Conservation and Environmental Protection Group (“**CECEP**”)⁶. CECEP is the ultimate beneficial owner of these Conversion Shares, and it is independent of and not connected with the Company and its connected persons. CECEP is a China’s centrally-administered state-owned enterprise, with the approval of the State-owned Assets Supervision and Administration Commission of the State Council⁷.

² Reference is made to the website of CIAM (<http://www.citiciam.com/index.php/sinpage/index/catid/159.html>)

³ Reference is made to the website of CIFH (<http://www.citicifh.com/eng/structure/index.htm>)

⁴ Reference is made to the 2018 annual report of China CITIC Bank (<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0429/LTN20190429483.pdf>)

⁵ Reference is made to the 2018 annual report of CITIC (<https://www.citic.com/uploadfile/2019/0418/20190418044301701.pdf>)

⁶ Reference is made to the disclosure of interest of the Company on 15 June 2015. (<https://di.hkex.com.hk/filing/di/NSForm2.aspx?fn=271876&sa2=an&sid=21150104&corp=Hong+Kong+Building+and+Loan+Agency+Ltd.%2c+The&sd=01%2f04%2f2003&ed=15%2f06%2f2017&sa1=c1&scsd=01%2f01%2f1900&sced=03%2f10%2f2017&sc=145&src=MAIN&lang=EN&sa2p=3&>)

⁷ Reference is made to the website of CECEP (<http://www.en.cecep.cn/g12829.aspx>)

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, State Energy is interested in 454,268,172 Shares, representing approximately 19.70% of the existing issued share capital of the Company. State Energy is a substantial shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the issue of the Promissory Notes Shares and Interest Shares to the substantial shareholder of the Company constitutes a connected transaction on the part of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders at the EGM for the Connected Transaction. To the best of the Directors' knowledge, information and belief, as at the Latest Practicable Date, State Energy, CIAM and Carbon Reserve Investments Limited hold 454,268,172, 102,552,205 and 7,001,160 Shares, being 19.70%, 4.45% and 0.30% of the issued share capital of the Company respectively. Cheng Lut Tim, Lo Shao Chi Julian, Zhao Xiao Hua and Spurrey Limited are not interested in any Shares. Save for the Creditors, no other Shareholder has a material interest in the Connected Transaction, and the Creditors are required to abstain from voting on the resolution to approve the Connected Transaction.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, none of the Directors has an interest in the Creditors, and no Director is required to abstain from voting on the board resolution to approve the Connected Transaction.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Connected Transaction.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, save for State Energy, the Other Creditors and their ultimate beneficial owner(s) are independent of and not connected with the Company (and its subsidiaries), its connected person(s) and their respective associate(s).

LETTER FROM THE BOARD

GENERAL MANDATE

The maximum number of 167,957,092 new Shares which comprise 159,250,000 Promissory Notes Shares and 8,707,092 Interest Shares will be issued under the General Mandate granted by the Shareholders to the Directors pursuant to the resolution passed at the annual general meeting of the Company held on 3 June 2019. Pursuant to the General Mandate, the maximum number of Shares that can be issued under the General Mandate is 461,300,563 Shares. As at the Latest Practicable Date, the Company has not allotted and issued any Shares pursuant to the General Mandate and the General Mandate is sufficient for the issue and allotment of the Promissory Notes Shares and the Interest Shares.

EGM

A notice convening the EGM to be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 26 July 2019 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. Whether or not you are able to attend the EGM in person, you are requested to complete and sign the form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of the power of attorney or authority, to the Company's share registrar, Tricor Tengis Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (and with effect from 11 July 2019 onwards, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong), as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

VOTING BY WAY OF POLL

In accordance with the relevant provisions of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll. As such, the resolution set out in the notice convening the EGM of the Company dated 11 July 2019 will be voted by poll.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 20 of the circular. The Independent Board Committee, having taken into account the advice from the Independent Financial Adviser, the text of which is set out on pages 21 to 38 of this circular, considers that the Connected Transaction, though not in the ordinary and usual course of business of the Company, is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Connected Transaction including the allotment and issue of the Promissory Notes Shares and the Interest Shares.

Having considered the above principal factors and reasons, the Directors (including the independent non-executive Directors) are of the view that the Connected Transaction is not in the ordinary and usual course of business of the Company, the terms of the Connected Transaction are on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Directors (including the independent non-executive Directors) consider that the Connected Transaction is in the interests of the Company and the Shareholders as a whole, and accordingly, recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Connected Transaction including the allotment and issue of the Promissory Notes Shares and the Interest Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

By order of the Board
The Hong Kong Building and Loan Agency Limited
Chong Kok Leong
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

11 July 2019

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION – ISSUE OF NEW SHARES UNDER GENERAL MANDATE FOR SCHEME OF ARRANGEMENT

We refer to the circular of the Company (the “**Circular**”) dated 11 July 2019 which this letter forms part. Unless the context otherwise requires, the capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to recommend the Independent Shareholders as to whether, the Connected Transaction is fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole and to the voting action that should be taken.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular.

Having considered the Connected Transaction and the advice given by the Independent Financial Adviser, we are of the opinion that the Connected Transaction, though not in the ordinary and usual course of business of the Company, is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM to approve the Connected Transaction including the allotment and issue of the Promissory Notes Shares and the Interest Shares.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Choy Hiu Fai, Eric

Mr. Huang Lizhi

Mr. Ng Kay Kwok

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders, for the purpose of inclusion in this circular, to the Independent Board Committee and the Independent Shareholders regarding the Connected Transaction – Issue of New Shares under General Mandate for Scheme of Arrangement of The Hong Kong Building and Loan Agency Limited.

F.E. Corporate Finance Advisory Limited
Unit 2202, 22/F., Fortis Tower,
77-79 Gloucester Road,
Wan Chai
Hong Kong

11 July 2019

*To: The Independent Board Committee and the Independent Shareholders of
The Hong Kong Building and Loan Agency Limited*

Dear Sir/Madam,

CONNECTED TRANSACTION – ISSUE OF NEWS SHARES UNDER GENERAL MANDATE FOR SCHEME OF ARRANGEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the Company in relation to the Connected Transaction – Issue of News Shares under General Mandate for Scheme of Arrangement, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 11 July 2019 (the “**Circular**”) issued to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular and the Appendices to the Circular, unless otherwise specified.

Our role as Independent Financial Adviser is to give our opinion as to whether the terms of the issue of the Promissory Notes Shares and the Interest Shares by the Company to State Energy are in the interests of the Company, on normal commercial terms, are fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR ADVICE

In formulating our opinion, advice and recommendation, we have reviewed, among other things:

- (i) announcement of the Company dated 6 December 2013;
- (ii) announcement of the Company dated 10 January 2019;
- (iii) announcement of the Company dated 15 May 2019;
- (iv) announcement of the Company dated 4 June 2019;
- (v) announcement of the Company dated 14 June 2019;
- (vi) announcement of the Company dated 28 June 2019;
- (vii) explanatory statement and scheme of arrangement between the Company and its creditors dated 3 June 2019;
- (viii) the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”); and
- (ix) other information contained in the Circular.

We have relied on the information and representations as provided by the Directors and the management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and up to the date of this letter. We have also sought and received confirmation from the Directors and/or management of the Group that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and considered that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided, and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent investigation into the business and affairs of the Group, State Energy and its respective associates, nor have we carried out any independent verification on the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that there are no other material facts the omission of which would make any statement in the Circular misleading.

This letter is issued for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the voting at the EGM and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from, and were not associated with the Company, State Energy, or their respective substantial shareholders or associates, or connected person(s), as defined under the Listing Rules and accordingly, and therefore are considered eligible to give independent advice on the Connected Transaction to the Independent Board Committee and the Independent Shareholders. During the past two years, save for the engagement in connection with the Connected Transaction, we have not acted as the independent financial adviser on any other transactions for the Company. Apart from the normal professional fees paid or payable to us in connection with this appointment as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Therefore, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

CONNECTED TRANSACTION – ISSUE OF NEWS SHARES UNDER GENERAL MANDATE FOR SCHEME OF ARRANGEMENT

References are made to the Company's announcement dated 10 January 2019, 15 May 2019, 4 June 2019, 28 June 2019 and the Announcement, in relation to, among other things, the Scheme.

As set out in the Letter from the Board in the Circular, and with reference to the above announcements, the Company proposed a scheme of arrangement to the Creditors on 3 June 2019, pursuant to which the Creditors will receive and the Company will allot and issue Shares for the entire Scheme up to (i) 1,181,447,664 Conversion Shares at the price of HK\$0.80 per Share to settle the outstanding principal amount of the Convertible Bonds in accordance with the original terms and conditions of the Convertible Bonds under the Specific Mandate; (ii) 159,250,000 Promissory Notes Shares for settlement and discharge of all outstanding principal amount of the Promissory Notes on the basis of HK\$0.80 per Share under the General Mandate; and (iii) 78,558,180 Interest Shares to settle outstanding Interest under the General Mandate as at the Effective Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

If the Scheme is implemented on the Effective Date (30 August 2019), 166,807,980 new Shares which comprise 159,250,000 Promissory Notes Shares and 7,557,980 Interest Shares will be allotted and issued to State Energy under the General Mandate, which represent (i) approximately 7.23% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 4.48% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before completion of the issue of Scheme Shares to Independent Shareholders and the Connected Transaction as at the Effective Date.

If the Effective Date falls on 31 December 2019 or earlier but after 30 August 2019 (details as referred in the section headed “BACKGROUND OF THE SCHEME” of the Letter from the Board in this circular), the maximum number of 167,957,092 new Shares which comprise 159,250,000 Promissory Notes Shares and 8,707,092 Interest Shares will be allotted and issued to State Energy under the General Mandate, which represent (i) approximately 7.28% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 4.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before completion of the issue of Scheme Shares to Independent Shareholders and the Connected Transaction as at 31 December 2019.

As at the Latest Practicable Date, State Energy is interest in 454,268,172 Shares, representing approximately 19.70% of the existing issued shares capital of the Company. State Energy is a substantial shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the issue of the Promissory Notes Shares and the Interest Shares to the substantial shareholder of the Company constitutes a connected transaction on the part of the Company and is subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Company will seek approval from the Independent Shareholders at the EGM for the Connected Transaction. Save for the Creditors, no other Shareholder has a material interest in the Connected Transaction, and the Creditors are required to abstain from voting on the resolution to approve the Connected Transaction.

THE INDEPENDENT BOARD COMMITTEE

An independent board committee, comprising all the independent non-executive Directors, namely Mr. Choy Hiu Fai, Eric, Mr. Huang Lizhi and Mr. Ng Kay Kwok, has been formed to advise the Independent Shareholders on the Connected Transaction.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the terms of the issue of the Promissory Notes Shares and the Interest Shares to State Energy, we have taken into consideration the following principal factors and reasons:

1. Information on the Company

The Hong Kong Building and Loan Agency Limited is a Hong Kong-based investment holding company principally engaged in treasury investment, provision of loan financing and design and provision of energy saving solutions.

Financial highlights of the Group

Set out below are the financial highlights of the Group as extracted from the annual report of the Company for the year ended 31 December 2018 (“FY2018”):

Highlights from consolidated statement of profit or loss

	For the year ended	
	31 December	
	2018	2017
	(Audited)	(Audited)
	(HK\$'000)	(HK\$'000)
Revenue	50,506	80,719
Gross profit	14,900	18,801
Net loss attributable to owners of the Company	(1,371,738)	(193,233)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the 2018 Annual Report, the Group recorded a revenue of approximately HK\$50,506,000 in FY2018, representing a decrease of approximately 37.43% as compared with HK\$80,719,000 for the year ended 31 December 2017 (“FY2017”). Net loss attributable to the owners of the Company of approximately HK\$1,371,738,000 in FY2018 (FY2017: loss of approximately HK\$193,233,000) was recorded, which was mainly attributable to (i) an impairment of goodwill of approximately HK\$432,403,000 (FY2017: HK\$66,176,000); (ii) an impairment of intangible assets of approximately HK\$541,453,000 (FY2017: Nil); (iii) loss on remeasurement of liability component of Convertible Bonds of approximately HK\$403,694,000 (FY2017: Nil); (iv) the amortisation of the intangible assets of the Company of approximately HK\$54,484,000 (FY2017: HK\$54,484,000); and (v) finance costs of approximately HK\$95,816,000 (FY2017: HK\$87,764,000) due to interest amortisation of Convertible Bonds and Promissory Notes; and approximately HK\$3,307,000 (FY2017: HK\$925,000) on other borrowings raised for financing the projects of the Group’s operations.

Highlights from consolidated statement of financial position

	As at 31 December	
	2018	2017
	(Audited)	(Audited)
	<i>(HK\$’000)</i>	<i>(HK\$’000)</i>
Non-current assets	211,082	1,220,653
Current assets	70,158	108,802
Current liabilities	1,147,081	159,492
Non-Current liabilities	15,150	668,144
Net (liabilities)/assets	(880,991)	501,819

As at 31 December 2018, the total liabilities increased to approximately HK\$1,162,231,000 (FY2017: approximately HK\$827,636,000). The total liabilities mainly represented the Convertible Bonds with carrying amount of approximately HK\$945,158,000 (FY2017: approximately HK\$491,008,000); the Promissory Notes with carrying amount of approximately HK\$127,400,000 (FY2017: approximately HK\$110,395,000); trade and other payables of approximately HK\$51,991,000 (FY2017: approximately HK\$25,092,000); and other borrowings of approximately HK\$22,532,000 (FY2017: HK\$23,965,000). The increase in total liabilities was mainly due to the imputed interest charged on the carrying amount of Convertible Bonds and Promissory Notes of approximately HK\$95,816,000 (FY2017: approximately HK\$87,764,000) and loss on remeasurement of liability component of Convertible Bonds of approximately HK\$403,694,000 (FY2017: Nil).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Information on State Energy

State Energy is a company incorporated in Hong Kong with limited liability since 2011 and is with its base in Hong Kong. It distributes bulk commodities including non-ferrous metal, chemicals, and electronic products. As at the Latest Practicable date, State Energy is interested in 454,268,172 Shares, representing approximately 19.70% of the issued Shares. State Energy is a substantial shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules.

3. Terms of the issue of the Promissory Notes Shares and the Interest Shares to the Substantial Shareholder of the Company

As disclosed in the Letter from the Board, the outstanding indebtedness of the Company include, but is not limited to, (i) Convertible Bonds in the principal amount of approximately HK\$945.2 million as at 31 December 2018; (ii) the Interest of the Convertible Bonds in the amount of approximately HK\$62.8 million as at the Effective Date; and (iii) Promissory Notes in the principal amount of approximately HK\$127.4 million as at 31 December 2018.

If the Scheme is implemented on the Effective Date (30 August 2019), the Company will be indebted to State Energy for HK\$224,378,813 in which (i) HK\$90,932,430 for the outstanding principal amount of the Convertible Bonds; (ii) HK\$6,046,383 for the Interest of the Convertible Bonds; and (iii) HK\$127,400,000 for the outstanding principal amount of the Promissory Notes.

The Interest Shares and the Promissory Notes Shares

If the Scheme is implemented on the Effective Date (30 August 2019), 166,807,980 new Shares which comprise 159,250,000 Promissory Notes Shares and 7,557,980 Interest Shares will be allotted and issued to State Energy under the General Mandate.

However, taking into account that the Scheme will become effective pending, inter alia, (i) the Independent Shareholders' approval for the Connected Transaction; and (ii) the actual date of the Court hearing and the Effective Date of the Scheme will depend on the availability of the Court and the actual length and scope of the relevant hearings, if the aforementioned cannot be fulfilled on or before 30 August 2019, the Interest will be further accrued. The Board after seeking legal advice considered it would be prudent to prepare for a delayed Effective Date, preliminary estimated to be 31 December 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As such, the Board proposed to seek for the listing approval of up to 8,707,092 Interest Shares of the Convertible Bonds to be issued to State Energy which represents the Interest accrued on the Convertible Bonds of up to HK\$6,965,673 as at 31 December 2019.

If the Effective Date falls on 31 December 2019 or earlier but after 30 August 2019, the maximum number of 167,957,092 new Shares which comprise 159,250,000 Promissory Notes Shares and 8,707,092 Interest Shares will be allotted and issued to State Energy under the General Mandate.

After reviewing the expected timetable of the Scheme, we agree with the Board that it is fair and reasonable to seek for Independent Shareholders' approval for additional Interest Shares of the Convertible Bonds to be issued to State Energy in case the Effective Date is postponed.

For further details and terms of the Scheme, please refer to the sections headed "BACKGROUND OF THE SCHEME" and "CONNECTED TRANSACTION – ISSUE OF NEW SHARES UNDER GENERAL MANDATE FOR SCHEME OF ARRANGEMENT" of the Letter from the Board.

4. Reasons for and benefits of the issue of the Promissory Notes Shares and the Interest Shares

As disclosed in the 2018 Annual Report, the Group had net current liabilities of approximately HK\$1,076,923,000 and net liabilities of approximately HK\$880,991,000. After the discussion with the Company, we agree that upon the successful implementation of the proposed Scheme, it would have the effect of discharging the substantial amount of the existing debt, and would substantially improve the financial position of the Group.

In view of (i) the huge premium of the Issue Price to the current market price of the Shares; (ii) no cash outflow of the Group and (iii) the positive effect to the financial position of the Group, we concur with the Company's view that the issue of the Promissory Notes Shares and the Interest Share to State Energy is fair and reasonable and to the best interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The Issue Price

The Issue Price of HK\$0.80 per Share represents:

- (i) a premium of approximately 1,130.77% to the closing price of HK\$0.065 as quoted on the Stock Exchange at the Despatch Date;
- (ii) a premium of approximately 1,126.99% to the average closing price of HK\$0.0652 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares immediately prior to the Despatch Date;
- (iii) a premium of approximately 900.00% to the closing price of HK\$0.080 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

After the discussion with the management of the Company, we understand that the Issue Price was determined with reference to the Conversion Price. The Convertible Bonds, the Promissory Notes and the Interests are originating from the same transaction as announced by the Company dated 6 December 2013 and it represents a premium to the current market price of the Shares.

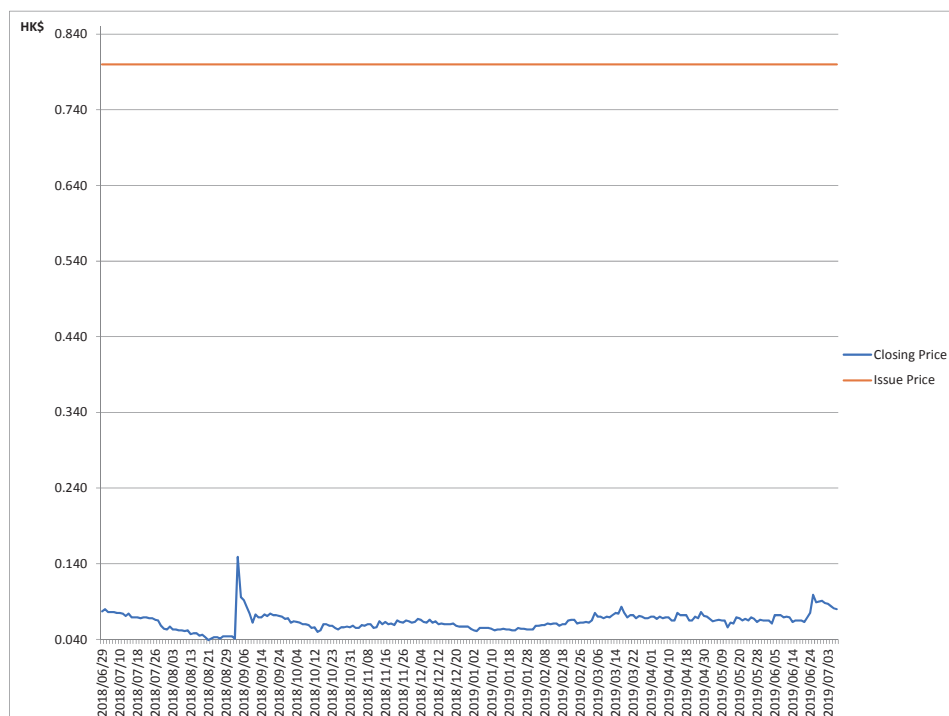
In considering the fairness and reasonableness of the Issue Price, we have conducted the following analyses:

Historical Share price performance

In order to assess the fairness and reasonableness of the Issue Price, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 29 June 2018 (being approximately one year prior to the date of the Scheme Meeting) up to and including the Latest Practicable Date (the “**Review Period**”). We consider to take approximately a one year period is adequate and reasonable for shareholders’ reference in regard to the Issue Price because the Review Period has included the latest financial position and reflected the Share price performance of the Group. The comparison of daily closing prices of the Shares and the Issue Price is illustrated as follows:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Historical daily closing price per Share during the Review Period



Source: the Stock Exchange (www.hkex.com.hk)

During the Review Period, the highest and the lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.149 recorded on 4 September 2018 and HK\$0.039 recorded on 21 August 2018 and the average closing price was HK\$0.0639. The Issue Price of HK\$0.80 is far above the range of the lowest and highest closing prices of the Shares. The Share price closed at HK\$0.080 on the Latest Practicable Date. The Issue Price of HK\$0.80 per Share represents (i) a premium of approximately 1,951.28% over the lowest closing price; (ii) a premium of approximately 436.91% over the highest closing price; and (iii) a premium of approximately 1,151.96% over the average closing price during the Review Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparable Transactions analysis

As part of our analysis, we have also identified transactions which are comparable to the issue of new shares during the period from 1 December 2018 up to the date of Scheme Meeting (the “**Comparable Review Period**”). Since the market condition may be quite different for a long period, we consider an approximately six-month time frame is optimal to reflect the recent trend of discount or premium on the issue price of new shares adopted in the recent market condition. In order to search for comparable transactions, we have set similar criteria include (i) the transactions are in relation to loan capitalization involving issue of new shares; (ii) the share issuance are not H-share companies whose share capital structure is different from the Company; (iii) share issuance are not undertaking a reverse takeover; and (iv) shares listed on the main board of the Stock Exchange in Hong Kong.

To the best of our knowledge and as far as we are aware of, we found 8 transactions (the “**Shares Comparables**”) which we consider an exhaustive list of relevant Share Comparables that illustrates similar transaction nature as the transactions based on the abovementioned criteria so as to provide an overall understanding to the Shareholders. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Shares Comparables. Nevertheless, our analysis is feasible for the purpose of showing recent market practice in relation to the pricing of issue of new shares and it can be used as a general reference under the current market environment in Hong Kong. Therefore, we consider that the Share Comparables are relevant in assessing the fairness and reasonableness of the Issue Price. The Table below illustrates the detail of the Share Comparable:

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Date of Announcement	Stock Code	Company Name	Issue price (HK\$/share)	Premium/(discount) of issue price over/to the share prices as at the last trading day prior to the release of the corresponding announcement	Premium/(discount) of issue price over/to the average share price for the last five consecutive trading days prior to the release of the announcement	Premium/(discount) of issue price over/to the NAV per share attributable to the owners of the company (Note 1)	Connected Transaction (yes/no)
12/06/2019	1498	Purapharm Corporation Limited	1.93	0.00%	3.42%	-14.98%	Yes
27/05/2019	863	Branding China Group Limited	5.00	-14.24%	-14.53%	3,716.79% (Note 2)	No
29/04/2019	381	Kiu Hung International Holdings Limited	0.10	96.08%	88.68%	185.71%	No
26/04/2019	223	Elife Holdings Limited	0.188	8.05%	0.00%	75.70%	No
12/02/2019	959	Amax International Holdings Limited	0.33	108.86%	110.19%	2.80%	No
30/01/2019	872	TUS International Limited	0.6084	-15.50%	-13.82%	44.17%	No
20/01/2019	686	Panda Green Energy Group Limited	0.30	-23.08%	-22.28%	-56.52% (Note 2)	No
15/01/2019	3882	Sky Light Holdings Limited	0.55	22.22%	20.09%	42.86%	Yes
			Maximum	108.86%	110.19%	3,716.79%	
			Minimum	-23.08%	-22.28%	-56.52%	
			Average	22.80%	21.47%	499.57%	
		Company's Transaction:	\$0.80	1,130.77%	1,126.99%	N/A (Note 3)	

Source: the Stock Exchange and the respective announcements of the listed companies

Note:

- The net asset value (the "NAV") per share attributable to the owners of the companies are calculated based on the net asset attributable to the owners of companies as disclosed in their latest financial reports prior to the release of the announcements divided by the number of issued shares outstanding as referenced from their latest monthly returns prior to the release of the announcements.
- For the purpose of this letter, unless otherwise specified, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of HK\$1.00 to RMB0.8807 (quoted from Bloomberg.com) as at 3 June 2019 (i.e. the Despatch Date). The exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been or may be exchanged at this or any other rates at all.
- The NAV per Share attributable to the owners of the Company as disclosed in 2018 Annual Report was negative and therefore it is non-applicable to calculate the percentage of the premium or discount of the Issue Price over/to the NAV per Share of the Company.

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From the above table, we find the issue prices of the Shares Comparables ranged from i) a discount of approximately 23.08% to a premium of approximately 108.86% to/over the share prices as at the last trading day prior to the release of the corresponding announcements in relation to loan capitalization involving issue of new shares (the “**Market Range I**”), with an average of a premium of approximately 22.80% (the “**Market Average I**”); ii) a discount of approximately 22.28% to a premium of approximately 110.19% to/over the average share price for the last five consecutive trading days prior to the release of the announcements in relation to the relevant issue of new shares (the “**Market Range II**”), with an average of a premium of approximately 21.47% (the “**Market Average II**”); and iii) a discount of approximately 56.52% to a premium of approximately 3,716.79% to/over the respective NAV per share attributable to the owners of the company in relation to the relevant issue of new shares, with an average of a premium of approximately 499.57%.

The Issue Price represents a premium of approximately 1,130.77% to the closing price of the Shares as at the Despatch Date (the “**Issue Price Premium I**”), a premium of approximately 1,126.99% to the average share price for the five consecutive trading days prior to the Despatch Date (the “**Issue Price Premium II**”).

We find that the Issue Price Premium I and Issue Price Premium II are far above the range of the Market Range I, the Market Range II, Market Average I and Market Average II, respectively. In addition, notwithstanding that the NAV per Share was negative and cannot directly compare to the percentage of the premium or discount of the issue price over/to the NAV per share among the comparables, in terms of money amount, the Issue Price represents a premium over the net liabilities per Share of the Company and hence the Issue Price is fair and reasonable. Therefore, we are of the opinion that the Issue Price is more favorable than the market practice and it is in the interest of the Company and Shareholders.

In conclusion, having considered that the Issue Price represents:

- (i) a high premium to the average closing price of the Shares during the Review Period;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) a relatively much larger premium to the issue prices of similar transactions of the market during the Comparable Review Period; and
- (iii) a premium of approximately HK\$1.182 over the audited consolidated net liabilities per Share as at 31 December 2018 of approximately HK\$0.382,

we are of the view that the Issue Price is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

6. Financial effects of the issue of Promissory Notes Shares and Interest Shares

As mentioned in the section head “CONNECTED TRANSACTION – ISSUE OF NEW SHARES UNDER GENERAL MANDATE FOR SCHEME OF ARRANGEMENT” of the Letter from the Board, the Scheme will become effective pending the Independent Shareholders approval for the Connected Transaction. For demonstration purpose, the following analyses show the financial effect of the issue of the Scheme Shares except for the issue of the Promissory Notes Shares and the Interest Shares to State Energy, and the issue of the Scheme Shares to the Creditors.

(i) Effect on debt ratio

As at 31 December 2018, the debt ratio of the Group (which is calculated based on total liabilities divided by total assets) was approximately 413.25%. Upon the issue of the Scheme Shares except for the issue of the Promissory Notes Shares and the Interest Shares to State Energy, the Group’s debt ratio is expected to improve to 63.52%. The debt ratio will be further improved to 16.76% upon the issue of the Scheme Shares to Other Creditors and State Energy as the total debt of the Company will be reduced by the aggregate amount of the Convertible Bonds, Promissory Notes and Interest payable.

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(ii) Effect on net asset value

As at 31 December 2018, the net liabilities of the Group was approximately HK\$881.0 million. Upon the issue of the Scheme Shares except for the issue of the Promissory Notes Shares and the Interest Shares to State Energy, the Group's net liabilities is expected to improve to net assets of approximately HK\$102.6 million. The net assets will be further improved to HK\$234.1 million upon the issue of the Scheme Shares to Other Creditors and State Energy as the total debt of the Company will be reduced by the aggregate amount of the Convertible Bonds, Promissory Notes and Interest payable.

Based on the above, the issue of the Promissory Notes Shares and the Interest Shares shall have a positive effect on the Group's debt ratio and net liabilities.

7. Dilution effect on the shareholding structure

If the Scheme is implemented on the Effective Date (30 August 2019), 166,807,980 new Shares which comprise 159,250,000 Promissory Notes Shares and 7,557,980 Interest Shares will be allotted and issued to State Energy under the General Mandate, which represent (i) approximately 7.23% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 4.48% of the issued share capital of the Company as enlarged by the allotment and issue of the Scheme Shares, assuming no further new Shares will be issued or repurchased by the Company before completion of the issue of Scheme Shares to Independent Shareholders and the Connected Transaction as at the Effective Date.

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The following table illustrates the shareholding structure of the Company (i) as at the Despatch Date; and (ii) immediately after implementation of the Scheme except for the issue of the Promissory Notes Shares and the Interest Shares to State Energy; and (iii) immediately after implementation of the Scheme.

	(i) As at the Despatch Date		(ii) Immediately after implementation of the Scheme except for the issue of Promissory Notes Shares and Interest Shares to State Energy					(iii) Immediately after implementation of the Scheme				
	No. of Shares	Approx.	No. of Shares		Interest Shares as at the Effective Date	Total Shares	Approx.	No. of Shares		Interest Shares as at the Effective Date	Total Shares	Approx.
			Conversion Shares	Promissory Notes Shares				Conversion Shares	Promissory Notes Shares			
The substantial Shareholders												
Hong Kong Mengzai Material Co., Limited	384,416,000	16.67%	-	-	-	384,416,000	10.80%	-	-	-	384,416,000	10.32%
State Energy (Note 1)	454,268,172	19.70%	113,665,538	-	-	567,933,710	15.96%	113,665,538	159,250,000	7,557,980	734,741,690	19.72%
Other Creditors												
CITIC International Assets Management Limited and its associates (Note 2)	102,552,205	4.45%	902,501,163	-	60,010,146	1,065,063,514	29.93%	902,501,163	-	60,010,146	1,065,063,514	28.59%
Cheng Lut Tim (Note 3)	-	-	5,000,000	-	332,466	5,332,466	0.15%	5,000,000	-	332,466	5,332,466	0.14%
Lo Shao Chi Julian (Note 3)	-	-	2,500,000	-	166,233	2,666,233	0.07%	2,500,000	-	166,233	2,666,233	0.07%
Zhao Xiao Hua (Note 3)	-	-	1,250,000	-	83,117	1,333,117	0.04%	1,250,000	-	83,117	1,333,117	0.04%
Spurrey Limited (Note 3)	-	-	91,538,575	-	6,086,689	97,625,264	2.74%	91,538,575	-	6,086,689	97,625,264	2.62%
Carbon Reserve Investments Limited (Note 4)	7,001,160	0.30%	64,992,388	-	4,321,549	76,315,097	2.14%	64,992,388	-	4,321,549	76,315,097	2.05%
Public Shareholders	1,358,265,279	58.89%	-	-	-	1,358,265,279	38.17%	-	-	-	1,358,265,279	36.45%
Total	2,306,502,816	100.00%	1,181,447,664	-	71,000,200	3,558,950,680	100.00%	1,181,447,664	159,250,000	78,558,180	3,725,758,660	100.00%

Notes:

- As State Energy is a substantial shareholder of the Company, it is a connected person of the Company under the Listing Rules. These Shares comprise (i) 454,268,172 Shares which is beneficially owned by State Energy and (ii) 113,665,537 Conversion Shares to be allotted and issued to State Energy under the Scheme. Mr. Liu Qunhui (“**Mr. Liu**”) and Ms. Niu Fang (“**Ms. Niu**”) are interested in State Energy by 53.3% and 46.7% respectively¹. By virtue of the SFO, Mr. Liu and Ms. Niu are deemed to be interested in the Shares held by State Energy. To the best of the Directors’ knowledge, information and belief, as at the Latest Practicable Date, Mr. Liu and Ms. Niu are the ultimate beneficial owners of these Shares.

¹ References are made to the disclosure of interests of the Company on 2 March 2017. (<http://sdinotice.hkex.com.hk/filing/di/NSForm1.aspx?fn=85459&sa2=as&sid=21150104&corpnr=Hong+Kong+Building+and+Loan+Agency+Ltd.%2c+The&sd=11%2f02%2f2004&ed=15%2f06%2f2017&sa1=c1&scsd=03%2f10%2f2003&scd=03%2f10%2f2017&sc=145&src=MAIN&lang=EN&> and <http://sdinotice.hkex.com.hk/filing/di/NSForm1.aspx?fn=85457&sa2=as&sid=21150104&corpnr=Hong+Kong+Building+and+Loan+Agency+Ltd.%2c+The&sd=11%2f02%2f2004&ed=15%2f06%2f2017&sa1=c1&scsd=03%2f10%2f2003&scd=03%2f10%2f2017&sc=145&src=MAIN&lang=EN&>)

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2. Save for the 102,552,205 Shares held by CITIC International Assets Management Limited and its associates (the “**CIAM**”), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, CIAM is not a connected person to the Company as at the Latest Practicable Date. These Shares comprise (i) 102,552,205 Shares which is beneficially owned by CIAM and (ii) 902,501,162 Conversion Shares to be allotted and issued to CIAM under the Scheme. CIAM is owned as to and 46% by CITIC International Financial Holdings Limited (“**CIFH**”), 19% by ITOCHU Corporation, 20% by Ithmaar Holding B.S.C. and 15% by CSI AMC Company Limited². CIFH is a wholly-owned subsidiary of China CITIC Bank Corporation Limited (“**China CITIC Bank**”). China CITIC Bank is over 60% indirectly owned by CITIC Limited (“**CITIC**”)³, 24.78% directly owned by Hong Kong Securities Clearing Company Nominees Limited and approximately 10% directly owned by other public shareholders⁴. CITIC is indirectly owned as to 58.13% by CITIC Group Corporation (“**CITIC Group**”), approximately 20% directly owned by Chia Tai Bright Investment Company Limited and 21.87% directly owned by other public shareholders⁵. By virtue of the SFO, each of CIFH, China CITIC Bank, CITIC and CITIC Group are deemed to be interested in the Shares held by CIAM. To the best of the Directors’ knowledge, information and belief, as at the Latest Practicable Date, CITIC Group is the ultimate beneficial owner of these Shares, and CITIC Group and its ultimate beneficial owners are independent of and not connected with the Company and its connected person(s).
3. Each of the Other Creditors who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected person(s) as at the Latest Practicable Date.
4. To the best of the Directors’ knowledge, information and belief, as at the Latest Practicable Date, Carbon Reserve Investments Limited is wholly owned by CECEP (Hong Kong) Investment Co., Limited (“**CECEP HK**”), and CECEP HK is wholly owned by China Energy Conservation and Environmental Protection Group (“**CECEP**”)⁶, CECEP is the ultimate beneficial owner of these Conversion Shares, and it is independent of and not connected with the Company and its connected person(s). CECEP is a China’s centrally-administered state-owned enterprise, with the approval of the State-owned Assets Supervision and Administration Commission of the State Council⁷.

² Reference is made to the website of CIAM (<http://www.citiciam.com/index.php/sinpage/index/catid/159.html>)

³ Reference is made to the website of CIFH (<http://www.citicifh.com/eng/structure/index.htm>)

⁴ Reference is made to the 2018 annual report of China CITIC Bank (<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0429/LTN20190429483.pdf>)

⁵ Reference is made to the 2018 annual report of CITIC (<https://www.citic.com/uploadfile/2019/0418/20190418044301701.pdf>)

⁶ Reference is made to the disclosure of interest of the Company on 15 June 2015. (<https://di.hkex.com.hk/filing/di/NSForm2.aspx?fn=271876&sa2=an&sid=21150104&cornp=Hong+Kong+Building+and+Loan+Agency+Ltd.%2c+The&sd=01%2f04%2f2003&ed=15%2f06%2f2017&sa1=cl&scsd=01%2f01%2f1900&sced=03%2f10%2f2017&sc=145&src=MAIN&lang=EN&sa2p=3&>)

⁷ Reference is made to the website of CECEP (<http://www.en.cecep.cn/g12829.aspx>)

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From the above table, the shareholdings of the existing public Shareholders will be diluted from (i) approximately 58.89% as at the Despatch Date to (ii) approximately 38.17% immediately after implementation of the Scheme except for the issue of the Promissory Notes Shares and the Interest Shares to State Energy and to (iii) approximately 36.45% immediately after implementation of the Scheme. Having considered that the reasons for and benefits of the issue of the Promissory Notes Shares and the Interest Shares as discussed before and, in particular, the Group's financial position will be improved obviously, we are of the view that the dilution effect of 1.72% from the issue of the Promissory Notes Shares and the Interest Shares to State Energy on the shareholding interests of the public Shareholders is insignificant.

RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that the issue of the Promissory Notes Shares and the Interest Shares is not in the ordinary and usual course of business of the Company, the terms of the issue of the Promissory Notes Shares and the Interest Shares to the substantial shareholder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution(s) to be proposed at the EGM to approve the Connected Transaction.

Yours faithfully,
For and on behalf of
F.E. Corporate Finance Advisory Limited
Michael Mak
Responsible Officer

Mr. Michael Mak is a licensed person registered with the Securities and Futures Commission and as a responsible officer of F.E. Corporate Finance Advisory Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over four years of experience in corporate finance industry and sixteen years of experience in securities industry.

1. 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 Company. 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.

2. NUMBER OF SHARES IN ISSUE**Issued number of Shares as at the Latest Practicable Date**

2,306,502,816 Shares

Issued number of Shares upon implementation of the Scheme (Interest Shares as at the Effective Date)

2,306,502,816 Shares in issue as at the Latest Practicable Date

1,181,447,664 Conversion Shares to be issued

159,250,000 Promissory Notes Shares to be issued

78,558,180 Interest Shares as at the Effective Date to be issued

3,725,758,660 Shares in issue immediately after implementation of the Scheme

Issued number of Shares upon implementation of the Scheme (Interest Shares as at 31 December 2019)

2,306,502,816 Shares in issue as at the Latest Practicable Date

1,181,447,664 Conversion Shares to be issued

159,250,000 Promissory Notes Shares to be issued

90,502,130 Interest Shares as at 31 December 2019 to be issued

3,737,702,610 Shares in issue immediately after implementation of the Scheme

3. DISCLOSURE OF INTERESTS**(i) Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures of the Company and associated corporation**

As at the Latest Practicable Date, none of the Directors or chief executives of the Company had, or was deemed to have, any interests or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.)

(ii) **Substantial Shareholders' interest and short position in the Shares and underlying Shares of the Company**

Save as disclosed below, as at the Latest Practicable Date, to the best knowledge of the Directors, interests or short positions of the persons, other than a Director or chief executive of the Company, in the Shares and/or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity/Nature of interests	Number of Shares held/ interested in	Number of Underlying Shares	Approximate percentage of number of Shares in issue (Note 1)
CITIC Group (Note 2)	Interest of controlled corporation	102,552,205	911,251,162	43.95%
CITIC (Note 2)	Interest of controlled corporation	102,552,205	911,251,162	43.95%
China CITIC Bank (Note 2)	Interest of controlled corporation	102,552,205	911,251,162	43.95%
CIFH (Note 2)	Interest of controlled corporation	102,552,205	911,251,162	43.95%
CIAM (Note 2)	Beneficial owner	102,552,205	911,251,162	43.95%
Mr. Liu (Note 3)	Interest of controlled corporation	454,268,172	113,665,537	24.62%
Ms. Niu (Note 3)	Interest of controlled corporation	454,268,172	113,665,537	24.62%
State Energy (Note 3)	Beneficial owner	454,268,172	113,665,537	24.62%
Hong Kong Menzai Material Co., Limited	Beneficial owner	384,416,000	–	16.66%

Notes:

1. As at the Latest Practicable Date, the percentage of shareholding is calculated based on 2,306,502,816 Shares in issue.
2. These shares comprise (i) 102,552,205 Shares held by CIAM and (ii) 911,251,162 Conversion Shares to be allotted and issued to CIAM upon the exercise of the conversion rights attaching to the Convertible Bonds issued to CIAM pursuant to the sale and purchase agreement on 31 October 2013. CIAM is owned as to 46% by CIFH, a wholly-owned subsidiary of China CITIC Bank, which is over 60% owned by CITIC, which is owned as to 58.13% by CITIC Group. By virtue of the SFO, each of CIFH, China CITIC Bank, CITIC and CITIC Group is deemed to be interested in the shares held by CIAM.
3. These shares comprise (i) 454,268,172 Shares held by State Energy and (ii) 113,665,537 Conversion Shares to be allotted and issued to State Energy. Mr. Liu and Ms. Niu are interested in State Energy. By virtue of the SFO, Mr. Liu and Ms. Niu are deemed to be interested in the Shares held by State Energy.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any persons (other than the Directors and chief executives of the Company) who had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

4. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date:

- (a) none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation;
- (b) none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (c) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group.

5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors was considered to have interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, the Company was not involved in any material litigation or arbitration and no material litigation or arbitration were pending or threatened or made against the Company so far as the Directors are aware.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

8. EXPERTS AND CONSENTS

The qualifications of the expert who have given opinions and advice in this circular as follows:

Name	Qualification
F.E. Corporate Finance Advisory Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, F.E. Corporate Finance Advisory Limited has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion herein of its letter, report and/or advice and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, F.E. Corporate Finance Advisory Limited did not have any direct or indirect shareholding in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interests, directly or indirectly, in any asset which had been acquired, disposed of by or leased to any member of the Group, or was proposed to be acquired, disposed of by or leased to any member of the Group, since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. GENERAL

- (a) The registered office of the Company is located at Rooms 1801-4, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong;
- (b) The secretary to the Company is Ms. Lai Wai Ha.
- (c) The address of the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (and with effect from 11 July 2019 onwards, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong).
- (d) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at Rooms 1801-4, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong during normal business hours on any Business Day from date of this circular up to and including the date of the EGM (and any adjournment thereof):

- (a) the articles of association of the Company;
- (b) the annual reports of the Group for the two years ended 31 December 2018 and 31 December 2017;
- (c) the written consents as referred to in the paragraph headed "EXPERTS AND CONSENTS" in this appendix;

- (d) the letter from the Board, the text of which is set out in this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (f) the letter of advice from the Independent Financial Adviser, the text of which is set out in this circular; and
- (g) this circular.

NOTICE OF EGM



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 Limited (the “**Company**”) will be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 26 July 2019 at 11:00 a.m., for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“**THAT:**

to consider and approve the issue of the Promissory Notes Shares and the Interest Shares as at 31 December 2019 to State Energy under the General Mandate.”

By order of the Board

The Hong Kong Building and Loan Agency Limited

Chong Kok Leong

Executive Director

Hong Kong, 11 July 2019

Registered office:

Rooms 1801-4
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

NOTICE OF EGM

Notes:

1. Any member of the Company (“**Member**”) entitled to attend and vote at the Meeting shall be entitled to appoint another person as his/her/its proxy to attend and vote on his/her/its behalf and the proxy so appointed shall have the same rights as the Member to speak at the Meeting. A proxy needs not be a Member. A Member may appoint more than one proxy to attend the Meeting.
2. A form of proxy in respect of the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
3. To be valid, the form of proxy, together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company’s share registrar, Tricor Tengis Limited, of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong (and with effect from 11 July 2019 onwards, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong), not less than 48 hours before the time fixed for the Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Meeting or any adjournment thereof as you so wish.
4. For ascertaining the shareholders’ entitlement to attend and vote at the Meeting, the register of Members will be closed from Thursday, 18 July 2019 to Friday, 26 July 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Meeting, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Tengis Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong (and with effect from 11 July 2019 onwards, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong) not later than 4:30 p.m. on Wednesday, 17 July 2019.
5. Where there are joint holders of any share of the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he/she/it was solely entitled thereto. If more than one of such joint holders are present at the Meeting personally or by proxy, that one of such joint holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect of such share of the Company.
6. 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 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 Listed Company Information” page of the Stock Exchange website to notify shareholders of the Company of the date, time and place of the rescheduled meeting, if any.

As of the date of this notice, the board of directors of the Company comprises, Dr. Li Ai Guo, Mr. Chong Kok Leong and Mr. Zhuang Miao Zhong being executive Directors; and Mr. Choy Hiu Fai, Eric, Mr. Huang Lizhi and Mr. Ng Kay Kwok being independent non-executive Directors.