



# ALLIED GROUP LIMITED

## ( 聯合集團有限公司 )

(Incorporated in Hong Kong with limited liability)  
(Stock Code: 373)

### UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

The Board of Directors ("Board") of Allied Group Limited ("Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries ("Group") for the six months ended 30th June, 2006 with the comparative figures for the corresponding period in 2005 are as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June, 2006

|  | Notes | Six months ended 30th June,<br>2006<br>Unaudited<br>HK\$'000 | 2005<br>Unaudited<br>HK\$'000<br>(Restated) |
|--|-------|--|---|
| Revenue  | (3)   | 1,581,347  | 955,144                                     |
| Other income   |       | 101,360  | 28,470                                      |
| Total income   |       | 1,682,707  | 983,614                                     |
| Cost of sales  | (4)   | (491,221)  | (138,807)                                   |
| Brokerage and commission expenses  |       | (114,469)  | (70,611)                                    |
| Selling and marketing expenses   |       | (30,329)   | (31,564)                                    |
| Administrative expenses  |       | (280,807)  | (216,537)                                   |
| Profit on deemed disposal of partial interests in subsidiaries                 | (5)   | 231,120  | –   |
| Changes in values of properties  | (6)   | 82,650   | 336,316                                     |
| Net loss on deemed disposal of listed associates                               | (7)   | (80,784)   | –   |
| Impairment loss recognised in respect of an available-for-sale financial asset | (8)   | (58,203)   | –   |
| Bad and doubtful debts   |       | (52,875)   | (30,303)                                    |
| Other operating expenses   |       | (75,567)   | (72,573)                                    |
| Other finance costs  | (4)   | (100,155)  | (40,715)                                    |
| Share of results of associates   |       | 71,502   | 82,238                                      |
| Share of results of jointly controlled entities                                |       | 57,914   | 58,116                                      |
| Profit before taxation   | (9)   | 841,483  | 859,174                                     |
| Taxation   | (10)  | (78,841)   | (90,176)                                    |
| Profit for the period  |       | 762,642  | 768,998                                     |
| Attributable to  |       |  |   |
| Equity holders of the Company  |       | 491,801  | 490,587                                     |
| Minority interests   |       | 270,841  | 278,411                                     |
|  |       | 762,642  | 768,998                                     |
| Earnings per share   | (11)  |  |   |
| Basic  |       | HK\$1.96   | HK\$1.89                                    |
| Diluted  |       | HK\$1.96   | N/A   |

**CONDENSED CONSOLIDATED BALANCE SHEET**

at 30th June, 2006

|   | At 30th June,<br>2006<br>Unaudited<br>HK\$'000 | At 31st December,<br>2005<br>Audited<br>HK\$'000 |
|---|--|--|
| <b>Non-current assets</b>   |  |  |
| Investment properties   | 2,605,507                                      | 2,626,100  |
| Property, plant & equipment   | 355,051  | 245,608  |
| Prepaid land lease payments   | 293,556  | 295,670  |
| Goodwill  | 33,121   | 33,267   |
| Intangible assets   | 23,100   | 25,016   |
| Interests in associates   | 2,757,168                                      | 2,710,057  |
| Interests in jointly controlled entities                                | 923,814  | 866,394  |
| Available-for-sale financial assets                                     | 834,275  | 616,857  |
| Statutory deposits  | 88,436   | 32,831   |
| Loans and advances to consumer finance customers<br>due after one year  | 1,123,065                                      | 1,055,691  |
| Loans and receivables   | 84,142   | 202,306  |
| Deferred tax assets   | 42,276   | 40,336   |
|   | <hr/> 9,163,511                                | <hr/> 8,750,133                                  |
| <b>Current assets</b>   |  |  |
| Properties held for sale and other inventories                          | 502,412  | 520,950  |
| Financial assets at fair value through profit or loss                   | 373,579  | 241,137  |
| Prepaid land lease payments   | 4,449  | 4,559  |
| Loans and advances to consumer finance customers<br>due within one year | 1,565,995                                      | 1,485,499  |
| Accounts receivable, deposits and prepayments                           | 2,699,748                                      | 2,674,311  |
| Amounts due from associates   | 11,610   | 7,384  |
| Amount due from a jointly controlled entity                             | 1,126  | 2,159  |
| Tax recoverable   | 3,663  | 3,842  |
| Short-term pledged bank deposit   | 1,000  | 972  |
| Bank deposits, bank balances and cash                                   | 2,080,653                                      | 732,173  |
|   | <hr/> 7,244,235                                | <hr/> 5,672,986                                  |
| <b>Current liabilities</b>  |  |  |
| Accounts payable and accrued charges                                    | 1,380,365                                      | 1,083,390  |
| Financial liabilities at fair value through profit or loss              | 327  | 17,756   |
| Amounts due to associates   | 72,523   | 62,828   |
| Amount due to a jointly controlled entity                               | 109,062  | 81,063   |
| Tax payable   | 90,455   | 44,214   |
| Bank and other borrowings due within one year                           | 1,749,942                                      | 1,251,889  |
| Other liabilities due within one year                                   | 41,530   | 33,382   |
|   | <hr/> 3,444,204                                | <hr/> 2,574,522                                  |
| <b>Net current assets</b>   | <hr/> 3,800,031                                | <hr/> 3,098,464                                  |
| <b>Total assets less current liabilities</b>                            | <hr/> <b>12,963,542</b>                        | <hr/> <b>11,848,597</b>                          |

|   | <b>At 30th June,<br/>2006<br/>Unaudited<br/>HK\$'000</b> | At 31st December,<br>2005<br>Audited<br>HK\$'000 |
|---|--|--|
| <b>Capital and reserves</b>                                 |  |  |
| Share capital   | 500,449  | 508,657  |
| Reserves  | 6,115,554  | 5,606,087  |
| <b>Equity attributable to equity holders of the Company</b> | <b>6,616,003</b>   | 6,114,744  |
| <b>Minority interests</b>                                   | <b>5,114,766</b>   | 3,998,261  |
| <b>Total equity</b>   | <b>11,730,769</b>  | 10,113,005                                       |
| <b>Non-current liabilities</b>                              |  |  |
| Bank and other borrowings due after one year                | 904,647  | 1,375,763  |
| Loan notes  | 108,468  | 144,931  |
| Deferred tax liabilities                                    | 216,472  | 212,155  |
| Other liabilities due after one year                        | 3,186  | 2,743  |
|   | <b>1,232,773</b>   | 1,735,592  |
|   | <b>12,963,542</b>  | 11,848,597                                       |

*Notes:*

(1) **Basis of preparation**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

(2) **Significant accounting policies**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31st December, 2005.

In the current period, the Group has adopted, for the first time, a number of new standards, amendments and interpretations (hereinafter referred to as the “new HKFRSs”) issued by the HKICPA, which are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of these new HKFRSs has had no material effect on how the results of operations and financial position of the Group for the current or prior accounting periods are prepared and presented.

*Potential impact arising on the new accounting standards not yet effective*

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective and are pertinent to the operation of the Group. The directors of the Company (“Directors”) anticipate that the application of these new standard, amendment and interpretations will have no material impact on the results and the financial position of the Group.

|                    |   |
|--------------------|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures <sup>1</sup>  |
| HKFRS 7            | Financial Instruments: Disclosures <sup>1</sup>   |
| HK(IFRIC)-Int 7    | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup> |
| HK(IFRIC)-Int 8    | Scope of HKFRS 2 <sup>3</sup>   |
| HK(IFRIC)-Int 9    | Reassessment of Embedded Derivatives <sup>4</sup>   |

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.

(3) **Segmental information**

Analysis of the Group's business segmental information is as follows:

|   | Six months ended 30th June, 2006                  |                                 |  |  |                   |
|---|---|---------------------------------|--|--|-------------------|
|   | Investment,<br>broking and<br>finance<br>HK\$'000 | Consumer<br>finance<br>HK\$'000 | Property<br>development<br>and<br>investment<br>HK\$'000 | Corporate<br>and other<br>operations<br>HK\$'000 | Total<br>HK\$'000 |
| Revenue   | 1,021,532   | 515,084                         | 88,974   | 8,201  | 1,633,791         |
| Less: inter-segment revenue                                       | (42,192)  | –                               | (4,227)  | (6,025)  | (52,444)          |
|   | <u>979,340</u>                                    | <u>515,084</u>                  | <u>84,747</u>  | <u>2,176</u>                                     | <u>1,581,347</u>  |
| Segment results   | 267,700   | 285,396                         | 117,376  | (8,586)  | 661,886           |
| Profit on deemed disposal of partial<br>interests in subsidiaries |   |                                 |  |  | 231,120           |
| Net loss on deemed disposal<br>of listed associates               |   |                                 |  |  | (80,784)          |
| Other finance costs   |   |                                 |  |  | (100,155)         |
| Share of results of associates                                    |   |                                 |  |  | 71,502            |
| Share of results of jointly<br>controlled entities                | (18)  | –                               | 57,932   | –  | 57,914            |
| Profit before taxation  |   |                                 |  |  | 841,483           |
| Taxation  |   |                                 |  |  | (78,841)          |
| Profit for the period   |   |                                 |  |  | <u>762,642</u>    |

|  | Six months ended 30th June, 2005                                |                                 |  |  |                                 |
|--|---|---------------------------------|--|--|---------------------------------|
|  | Investment,<br>broking and<br>finance<br>HK\$'000<br>(Restated) | Consumer<br>finance<br>HK\$'000 | Property<br>development<br>and<br>investment<br>HK\$'000<br>(Restated) | Corporate<br>and other<br>operations<br>HK\$'000 | Total<br>HK\$'000<br>(Restated) |
| Revenue  | 458,008   | 420,777                         | 86,344   | 2,519  | 967,648                         |
| Less: inter-segment revenue                        | (7,354)   | –                               | (2,650)  | (2,500)  | (12,504)                        |
|  | <u>450,654</u>  | <u>420,777</u>                  | <u>83,694</u>  | <u>19</u>  | <u>955,144</u>                  |
| Segment results                                    | 113,928   | 284,073                         | 372,443  | (10,909)   | 759,535                         |
| Other finance costs                                |   |                                 |  |  | (40,715)                        |
| Share of results of associates                     |   |                                 |  |  | 82,238                          |
| Share of results of jointly<br>controlled entities | 2   | –                               | 58,114   | –  | 58,116                          |
| Profit before taxation                             |   |                                 |  |  | 859,174                         |
| Taxation   |   |                                 |  |  | (90,176)                        |
| Profit for the period                              |   |                                 |  |  | <u>768,998</u>                  |

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

During the period under review, less than 10% of the operations of the Group in terms of both revenue and segment result were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

(4) **Finance costs**

|                                  | Six months ended<br>30th June, |                                |
|----------------------------------|--------------------------------|--------------------------------|
|                                  | 2006<br>HK\$'000               | 2005<br>HK\$'000<br>(Restated) |
| Total finance costs included in: |                                |                                |
| Cost of sales                    | 23,835                         | 4,741                          |
| Other finance costs              | 100,155                        | 40,715                         |
|                                  | <u>123,990</u>                 | <u>45,456</u>                  |

(5) **Profit on deemed disposal of partial interests in subsidiaries**

Allied Properties (H.K.) Limited ("Allied Properties"), a listed subsidiary of the Company, through its wholly-owned subsidiary, had completed share placing of 169,000,000 shares ("1st Share Placing") and 79,000,000 shares ("2nd Share Placing") of Sun Hung Kai & Co. Limited ("Sun Hung Kai"), a listed subsidiary of Allied Properties, on 22nd May, 2006 and 10th August, 2006 respectively. The top-up subscription of 248,000,000 new shares of Sun Hung Kai was completed on 10th August, 2006. The shareholdings in Sun Hung Kai held by Allied Properties before the 1st Share Placing and after the top-up subscription were 74.99% and 62.54% respectively. The total profit arising from the deemed disposal of the partial interest in Sun Hung Kai as well as United Asia Finance Limited ("UAF", a subsidiary of the Company), of which 7.27% was held through Sun Hung Kai, arising from the placing and top-up subscription of 248,000,000 shares of Sun Hung Kai was estimated to be approximately HK\$321,215,000. The profit on deemed disposal attributable to the top-up effect of the 1st Share Placing, amounting to HK\$231,120,000, was recognised in the income statement for the current period accordingly.

|  |  |   |
|--|--|---|
| <b>(6) Changes in values of properties</b>   | <b>Six months ended 30th June,</b><br><b>2006</b><br><b>HK\$'000</b> | <b>2005</b><br><b>HK\$'000</b><br><b>(Restated)</b> |
| Changes in values of properties comprise:  |  |   |
| Increase in fair value of investment properties  | 99,703   | 306,538   |
| (Write-down) reversal of write-down of properties held for sale  | (18,700)   | 24,925  |
| Reversal of impairment loss of hotel property  | 1,647  | 4,853   |
|  | <b>82,650</b>  | <b>336,316</b>                                      |
| <b>(7) Net loss on deemed disposal of listed associates</b>  | <b>Six months ended 30th June,</b><br><b>2006</b><br><b>HK\$'000</b> | <b>2005</b><br><b>HK\$'000</b>                      |
| Net loss on deemed disposal of listed associates arises from the following:  |  |   |
| (a) – Exercise of unlisted warrants of a listed associate conferring rights to subscribe for up to 78,800,000 new shares by a subscriber   | 67,905   | –   |
| – Share placing and top-up subscription of shares of the listed associate in April 2006  | 12,965   | –   |
| (b) Exercise of warrants and share options by another listed associate   | (86)   | –   |
|  | <b>80,784</b>  | <b>–</b>  |
| <b>(8) Impairment loss recognised in respect of an available-for-sale financial asset</b>  |  |   |
| It represents the impairment loss of HK\$58,203,000 (2005: Nil) provided by the Group relating to the Group's 12.5% interest in a Kuala Lumpur hotels project after the Court of Final Appeal delivered its decision, dismissing the Group's final appeal. The details of the litigation have been disclosed in the contingent liabilities of the 2005 annual report of the Company. |  |   |
| <b>(9) Profit before taxation</b>  | <b>Six months ended 30th June,</b><br><b>2006</b><br><b>HK\$'000</b> | <b>2005</b><br><b>HK\$'000</b><br><b>(Restated)</b> |
| Profit before taxation has been arrived at after charging:   |  |   |
| Amortisation of intangible assets  | 1,946  | 1,686   |
| Amortisation of prepaid land lease payments  | 2,224  | 2,262   |
| Depreciation   | 16,241   | 17,164  |
| Loss on disposal of partial interests in a subsidiary  | 261  | –   |
| Net unrealised loss on derivatives   | –  | 1,358   |
| Net unrealised loss on financial assets at fair value through profit or loss   | –  | 1,219   |
| and after crediting:   |  |   |
| Dividend income from investments in listed equity securities   | 10,062   | 8,874   |
| Dividend income from investments in unlisted equity securities   | 3,332  | 4,581   |
| Excess of net fair value over consideration arising from acquisition of an associate (included in other income)  | 9,011  | –   |
| Interest income  | 622,741  | 495,074   |
| Net profit on dealing in leveraged foreign currencies  | 4,131  | 2,817   |
| Net profit on disposal of available-for-sale financial assets (included in other income)   | 68,706   | 2,951   |
| Net profit on other dealing activities   | 17,725   | 2,306   |
| Net realised profit on derivatives   | 9,508  | 10,635  |
| Net realised profit on financial assets at fair value through profit or loss   | 13,523   | 2,073   |
| Net unrealised profit on derivatives (included in other income)  | 6,406  | –   |
| Net unrealised profit on financial assets at fair value through profit or loss (included in other income)  | 6,845  | –   |
| Refund of interest expenses in respect of litigation related to Kuala Lumpur hotels project pursuant to Court of Appeal Judgment   | –  | 14,011  |
| <b>(10) Taxation</b>   | <b>Six months ended 30th June,</b><br><b>2006</b><br><b>HK\$'000</b> | <b>2005</b><br><b>HK\$'000</b><br><b>(Restated)</b> |
| The charge comprises:  |  |   |
| Current tax:   |  |   |
| Hong Kong  | 75,803   | 58,791  |
| Outside Hong Kong  | 553  | 209   |
|  | <b>76,356</b>  | <b>59,000</b>                                       |
| Deferred tax   | 2,485  | 31,176  |
|  | <b>78,841</b>  | <b>90,176</b>                                       |

Hong Kong Profits Tax is calculated at the rate of 17.5% on the estimated assessable profits for both periods.

Taxation outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

(11) **Earnings per share**

The calculation of basic and diluted earnings per share attributable to the equity holders of the Company is based on the following:

|  | <b>Six months ended 30th June,</b> |                 |
|--|------------------------------------|-----------------|
|  | <b>2006</b>                        | <b>2005</b>     |
|  | <b>HK\$'000</b>                    | <b>HK\$'000</b> |
|  |                                    | (Restated)      |
| <b>Earnings</b>  |                                    |                 |
| Earnings for the purposes of basic earnings per share<br>(profit for the period attributable to equity holders of the Company) | <b>491,801</b>                     | 490,587         |
| Effect of dilutive potential ordinary shares:  |                                    |                 |
| Adjustments to earnings in respect of the effect of dilutive potential ordinary shares arising from warrants of a subsidiary   | <b>(30)</b>                        | –               |
| Adjustments to the share of results of associates based on dilution of their earnings per share                                | <b>(673)</b>                       | –               |
| Earnings for the purposes of diluted earnings per share  | <b>491,098</b>                     | 490,587         |
|  | <b>'000</b>                        | <b>'000</b>     |
| <b>Number of shares</b>  |                                    |                 |
| Weighted average number of shares for the purpose of basic and diluted earnings per share                                      | <b>251,200</b>                     | 260,136         |

(12) **Dividend**

|   | <b>Six months ended 30th June,</b> |                 |
|---|------------------------------------|-----------------|
|   | <b>2006</b>                        | <b>2005</b>     |
|   | <b>HK\$'000</b>                    | <b>HK\$'000</b> |
| Ordinary shares:  |                                    |                 |
| Interim dividend of HK 10 cents per share (2005: HK5 cents) | <b>24,944</b>                      | 12,918          |

The amount of the interim dividend for the six months ended 30th June, 2006 has been calculated by reference to 249,438,423 shares in issue at 14th September, 2006.

During the period, the Company paid dividend of HK\$37,637,000, representing HK15 cents per share, in respect of the final dividend of 2005.

(13) **Comparative figures**

After the preparation of the Group's interim report for the six months ended 30th June, 2005, the Group subsequently amended the prior period adjustments for the adoption of new Hong Kong Financial Reporting Standards issued by the HKICPA that are effective for accounting period beginning on or after 1st January, 2005 in the preparation of the annual report for the year ended 31st December 2005.

As a result, the Group changed the presentation of certain items in the 2005 annual report from that adopted as at 30th June, 2005.

Accordingly, the presentation of the comparative information in respect of the six months ended 30th June, 2005 which appears in these interim financial statements has been changed from the information published in the 2005 interim report.

The June 2005 comparative figures of certain items in the income statement have been restated where relevant and to conform to the method of computation of the current period as follows:

|                                 | <b>As reported on</b>  | <b>Restatement and</b>  | <b>As restated</b>     |
|---------------------------------|------------------------|-------------------------|------------------------|
|                                 | <b>30th June, 2005</b> | <b>reclassification</b> | <b>30th June, 2005</b> |
|                                 | <b>HK\$'000</b>        | <b>HK\$'000</b>         | <b>HK\$'000</b>        |
| Changes in value of properties  | 337,285                | (969)                   | 336,316                |
| Other operating expenses        | (67,485)               | (5,088)                 | (72,573)               |
| Other finance costs             | (31,441)               | (9,274)                 | (40,715)               |
| Share of results of associates  | 79,972                 | 2,266                   | 82,238                 |
| Taxation                        | (90,541)               | 365                     | (90,176)               |
| Profit for the period           | <b>781,698</b>         | <b>(12,700)</b>         | <b>768,998</b>         |
| Attributable to                 |                        |                         |                        |
| Equity holders of the Company   | 498,576                | (7,989)                 | 490,587                |
| Minority interests              | 283,122                | (4,711)                 | 278,411                |
|                                 | <b>781,698</b>         | <b>(12,700)</b>         | <b>768,998</b>         |
| Basic earnings per share (HK\$) | <b>1.92</b>            | <b>(0.03)</b>           | <b>1.89</b>            |

## **INTERIM DIVIDEND AND BOOK CLOSE**

The Board has declared an interim dividend of HK10 cents per share (2005: HK5 cents) payable to the shareholders whose names appear on the register of members of the Company on 27th October, 2006. It should also be noted that the Company continued to repurchase its shares during the period at an aggregate consideration of approximately HK\$53.11 million. Accordingly, both net asset value per share and earnings per share have been enhanced. The register of members will be closed from 23rd October, 2006 to 27th October, 2006, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 20th October, 2006. Dividend warrants are expected to be despatched on 3rd November, 2006.

## **FINANCIAL REVIEW**

### **Results**

The Group reported a profit attributable to equity holders of the Company for the period of approximately HK\$491.8 million (2005: HK\$490.6 million, as restated). Earnings per share amounted to HK\$1.96 (2005: HK\$1.89, as restated).

Revenue for the period was approximately HK\$1,581.3 million (2005: HK\$955.1 million). The increase was mainly due to the increase in the commission income of the securities broking and dealing activities of Sun Hung Kai as retail broking activities continued to benefit from the buoyant market in the first half year of 2006. The gain in value of the investment property portfolio of the Group was HK\$99.7 million (2005: HK\$306.5 million, as restated). During the period, the Group announced a two part placing and top-up subscription of 248,000,000 shares of Sun Hung Kai at HK\$7.0 per share. The 1st placing, representing 169,000,000 shares of Sun Hung Kai, was completed in May 2006 while the 2nd placing of 79,000,000 shares of Sun Hung Kai and the subscription of 248,000,000 new shares of Sun Hung Kai were completed in August 2006. A profit on the deemed disposal of partial interest in subsidiaries arising from the placing and top-up subscription, amounting to HK\$231.1 million, was recognised on a proportional basis. A listed associate of the Group, Tian An China Investments Company Limited ("Tian An") also undertook similar placing to a number of institutional investors and top-up subscription during the period under review. A loss on the deemed disposal of a partial interest in the listed associate amounting to HK\$13.0 million was consequently recognised. The exercise of warrants of Tian An by Wachovia Investment Holdings, LLC ("Wachovia") also resulted in a loss on deemed disposal of HK\$67.9 million.

### **Financial Resources, Liquidity and Capital Structure**

At 30th June, 2006, the equity attributable to the equity holders of the Company amounted to HK\$6,616.0 million, representing an increase of HK\$501.3 million or approximately 8.2% from that of 31st December, 2005. The Group's short-term bank deposits, bank balances and cash amounted to HK\$2,081.7 million (at 31st December, 2005: HK\$733.1 million). The Group's bank loans and other borrowings, together with loan notes, totalled HK\$2,763.0 million (at 31st December, 2005: HK\$2,772.6 million) of which the portion due on demand or within one year was HK\$1,749.9 million (at 31st December, 2005: HK\$1,251.9 million), and the remaining long-term portion was HK\$1,013.1 million (at 31st December, 2005: HK\$1,520.7 million). The liquidity of the Group as evidenced by the current ratio (current assets / current liabilities) was 2.10 times (at 31st December, 2005: 2.20 times). The Group's gearing ratio (net bank and other borrowings together with loan notes/equity attributable to the equity holders of the Company) was 10.3% (at 31st December, 2005: 33.4%).

Most of the bank borrowings of the Group are subject to floating interest rate.

During the period, the Company repurchased a total of 4,104,000 of its own shares at an aggregate consideration, including transaction costs, of approximately HK\$53.3 million.

### **Acquisition and Disposal**

There were no material acquisitions or disposals of subsidiaries, associates and jointly controlled entities during the period.

### **Risk of Foreign Exchange Fluctuation**

There have been no significant changes in the exposure to foreign exchange risks from those outlined in the Company's annual report for 2005.

## Contingent Liabilities

(a) At 30th June, 2006, the Group had guarantees as follows:

|  | At 30th June,<br>2006<br>HK\$'000 | At 31st December,<br>2005<br>HK\$'000 |
|--|-----------------------------------|---------------------------------------|
| Indemnities on banking guarantees made available to a clearing house and regulatory body | 5,540                             | 5,540                                 |
| Other guarantees   | 8,152                             | 7,084                                 |
|  | <u>13,692</u>                     | <u>12,624</u>                         |

- (b) On 4th February, 2004, Sun Tai Cheung Credits Limited (“STCC”) and Sun Hung Kai Investment Services Limited (“SHKIS”), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching statement of claim (“200/2004”) by Shanghai Finance Holdings Limited (“SFHL”), claiming, inter alia, that the sale of shares in Shun Loong Holdings Limited (“SLHL”) (“Shun Loong Shares”) by STCC as assignee to SHKIS (for a consideration of HK\$36,500,000 subject to additional amounts in a total sum not exceeding HK\$15,700,000 which might have been payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and an account as to the amount received by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and believe that the claim is not soundly based and have applied to have the claim struck-out. The proceedings have been stayed until further order by the court.
- (c) In June 2006, Sun Hung Kai received notice of a 2001 order made by the Hubei Province Higher Peoples Court in China freezing US\$3 million of funds of Sun Hung Kai Securities Limited (“SHKS”) (or assets of equivalent value), a direct wholly-owned subsidiary of Sun Hung Kai, pursuant to which SHKS’s shares in Chang Zhou Power Development Company Limited in China (“Shares”) (worth US\$3 million) were subsequently frozen. SHKS had sold the Shares in 1998. Pursuant to a further agreement in 2001, SHKS received indemnities and waivers as to any potential liability. Sun Hung Kai will further investigate the matter but at this stage it does not consider that it is appropriate to make any provision in the circumstances. It will make a final decision once its investigation has been completed.

## Litigation

- (a) By the Judgment of High Court on 1st April, 2004 (“Judgment”) in HCA 3191/1999 between New World Development Company Limited (“NWDC”) and Stapleton Developments Limited (“SDL”) against SHKS, SHKS was ordered to pay NWDC the sum of HK\$105,534,018.22 together with interest on the principal sum of HK\$80,117,652.72 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which the Court found. As at 17th June, 2004, the date when the Judgment sum was paid, the Judgment amounted to HK\$150,115,681.54 (being HK\$105,534,018.22 plus interest of HK\$44,581,663.32). SHKS has paid the Judgment amounts. SHKS filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. That Court of Appeal handed down the judgment (“Court of Appeal Judgment”) in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the Court of First Instance but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK\$14,783,090.86 and has been repaid. SHKS obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal (“Final Appeal”). The Final Appeal was heard on 19th, 20th and 21st June, 2006. On 10th July, 2006, the Court of Final Appeal delivered its decision (“Final Appeal Judgment”), dismissing the Final Appeal except to the extent that the principal sum awarded in favour of NWDC should be reduced by HK\$629,448.15. This amount together with interest thereon of HK\$647,991.43 totalling HK\$1,277,439.58 has now been paid to SHKS by NWDC. Pursuant to the Final Appeal Judgment, SHKS was ordered to pay costs of the appeal.

SHKS is seeking legal advice as to the effect of the Final Appeal Judgment on new claims contained in (i) a writ containing an endorsement of claim issued by NWDC in April 2004 (“HCA 813/2004”) for the sums of HK\$27,237,489.51 and HK\$7,697,418.42 together with interest on such sums from 1st March, 2000 and 2nd January, 2001 respectively at such rate as the Court considers appropriate, although as at the date of this announcement, the writ in HCA 813/2004 has not been served on SHKS; and (ii) a writ including a statement of claim issued by NWDC and SDL in February 2006 (“HCA 376/2006”) for what are asserted to be amounts advanced by NWDC on behalf of SHKS as pro-rata contributions to shareholders’ loans. The sum of HK\$37,498,011.41, being the aggregate of the contributions claimed from SHKS, together with interest thereon at such rate and for such period as the Court considers appropriate is claimed in HCA 376/2006, although as at the date of this announcement that writ has not been served on SHKS. The management has taken the view that it is prudent to now make a provision for payment of those not already provided for in previous years. Accordingly, further provisions of HK\$34,932,171.94 for principal and approximately HK\$9,294,000 for interest have been made and the principal amounts added to the loans already existing.



- (b) Sun Loong Finance Limited and SLHL (together the “Petitioners”), both indirect wholly-owned subsidiaries of Sun Hung Kai, filed a winding-up petition on 19th February, 2004 in the British Virgin Islands (“B.V.I.”) seeking an order that SFHL be wound up by reason of its failure to pay debts owing to the Petitioners. The B.V.I. proceedings were stayed by order of the B.V.I. court. The Petitioners have appealed that decision but have agreed not to pursue the appeal during the stay of 200/2004.
- (c) Sun Hung Kai, STCC and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.
- (d) An update on the litigation between SFHL against STCC and SHKIS (200/2004) is set out in paragraph (b) of the “Contingent Liabilities” section above.
- (e) Details of the case regarding Chang Zhou Power Development Company Limited are set out in paragraph (c) of the “Contingent Liabilities” section above.

### **Pledge of Assets**

At 30th June, 2006, certain of the Group’s investment properties, hotel property, land and buildings, prepaid land lease payments and properties held for sale with an aggregate carrying value of HK\$3,632.3 million (at 31st December, 2005: HK\$3,565.7 million), listed investments belonging to the Group and margin clients with a carrying value of HK\$1,378.2 million (at 31st December, 2005: HK\$1,387.7 million) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK\$3,180.2 million (at 31st December, 2005: HK\$3,171.1 million) were pledged to secure loans and general banking facilities to the extent of HK\$3,256.7 million (at 31st December, 2005: HK\$3,248.8 million) granted to the Group. Facilities amounting to HK\$1,856.6 million (at 31st December, 2005: HK\$1,832.5 million) were utilised at 30th June, 2006.

At 30th June, 2006, a bank deposit of HK\$1.0 million (at 31st December, 2005: HK\$1.0 million) was pledged to secure a bank guarantee amounting to HK\$2.0 million (at 31st December, 2005: HK\$2.0 million).

## **OPERATIONAL REVIEW**

### **Financial Services**

#### *Consumer finance*

UAF continued its strong performance. It achieved a 14.7% increase in revenue during the period and a 21% year-on-year growth in the balance of loans and advances to consumer finance customers at the period end. Although the profit contributed by UAF during the period was similar to that of last year, after excluding a write-back of provision for doubtful debts of HK\$17 million during the corresponding period of 2005, profit for the period actually rose by 8.2%. The result is particularly commendable in an environment of rising cost of funds and operating expenses.

The total number of branches of UAF at 30th June, 2006 increased to thirty-five with the opening of Tai Kok Tsui Branch, Tin Shui Wai Branch in March 2006 and Kwun Tong II Branch in April 2006.

The principal business activities of The Hong Kong Building and Loan Agency Limited comprise treasury investment and the provision of mortgage finance. The competition in mortgage market remained keen and interest margins remained low due to successive increases in market interest rates.

The Group’s entire shareholding interest in UAF, comprising the entire issued share capital of UAF Holdings Limited together with the assignment of the related shareholder’s loan, has been sold to Sun Hung Kai for an aggregate consideration of HK\$4,328 million. This transaction was completed on 24th August, 2006. It is our view that this strategic group reorganisation will rationalise the group structure and consolidate the loan and financial services businesses of the Group into Sun Hung Kai, which is expected to achieve ongoing operational economies. It will also enhance Sun Hung Kai’s ability to provide a wide range of finance products and other related services. The Group will however, continue to benefit from the success of UAF through its indirect interest in Sun Hung Kai.

### *Broking and finance*

Sun Hung Kai, a major listed subsidiary of the Group, recorded a profit attributable to its equity holders of HK\$178.0 million (2005: HK\$192.6 million, as restated). While the profit attributable to its equity holders is lower than that of 2005, it is important to note that the profit from the normal course of business improved significantly to HK\$275.0 million from HK\$130.4 million, an increase of 110.9%.

The decrease in profit attributable to equity holders of Sun Hung Kai was caused by two non-recurring charges. The first was a deemed loss of HK\$80.8 million arising from the requisite accounting treatment of the carrying value of Sun Hung Kai's investment in Tian An arising from the conversion by Wachovia of 78,800,000 warrants in Tian An at a price of HK\$2.75 each and a placement to institutional investors and top-up subscription of 175,000,000 Tian An shares at a price of HK\$5.1 per share. We believe, however, that the consequent cash injection into Tian An has in fact strengthened its balance sheet and its capacity to pursue its development projects and thus enhanced the long term value of the Group's investment in Tian An. The other non-recurring charge to Sun Hung Kai's results arises from an impairment provision of HK\$58.2 million to the carrying value of its interest in the Kuala Lumpur hotel joint venture with NWDC pursuant to the final decision of the Hong Kong Court of Final Appeal. Further details of these provisions or losses are contained in notes 7 and 8 to the condensed consolidated financial statements.

The turnover and commission income of the securities broking division increased substantially with the buoyant market conditions. Fee income associated with underwriting and placement activities also improved for the period. The number of new accounts grew with the significant investor interest in IPOs.

Precious metals markets were extremely volatile during the period and the respective broking income compensated for the decline in activity experienced by the leveraged forex and commodities operations.

The corporate finance division successfully sponsored two IPOs on the main board and one IPO on the GEM board of the Stock Exchange and was actively involved in a number of underwriting exercises for IPOs. The division will continue to focus on IPO projects for medium-sized enterprises in both Hong Kong and Mainland China and financial advisory and placing services for listed companies in Hong Kong.

### **Properties**

#### *Hong Kong*

Allied Properties reported a profit attributable to its shareholders amounting to HK\$498.3 million, a 6.5% decrease from that of last year, primarily due to lower increases in the values of its Hong Kong properties.

Allied Properties' recurrent income from its investment property portfolio continued to increase, benefiting from the favourable local property market. Allied Cargo Centre, China Online Centre as well as Park Place achieved higher rental income, reflecting the benefits from positive rental reversion. The hotel operating income from Ibis North Point continued to improve with the buoyant Hong Kong tourism industry.

Allied Kajima Limited, 50% indirectly owned by the Group and the owner of various properties including Allied Kajima Building, Novotel Century Hong Kong hotel and the Philippine Plaza Hotel, contributed a profit similar to that of 2005. This is because the Novotel hotel is undertaking an extensive renovation programme of all its rooms which is scheduled to be completed around the middle of next year.

#### *Mainland PRC*

Tian An, a listed associate of Sun Hung Kai, recorded a profit attributable to its equity holders of HK\$141.3 million, representing a 94% increase over the corresponding period of last year. Turnover decreased by 13% to HK\$363.2 million. This is in line with Tian An's stated policy of maximising profit margins from development properties, retaining selected properties which have high capital growth potential for recurring income, and disposing of non-core properties or projects. To this end, Tian An disposed of a jointly controlled entity holding a piece of land in Shanghai and the resulting gain was the main reason for the increase in profit for the period.

## **Investments**

### *Quality HealthCare Asia Limited (“QHA”)*

QHA, a listed associate of Sun Hung Kai, reported a turnover of HK\$439.6 million, an increase of 9.1%, compared to HK\$403.0 million for the same period last year. Profit attributable to equity holders of QHA was HK\$31.8 million, an increase of 37%, compared to HK\$23.2 million of the corresponding period. The results were driven by an increase in the number of corporate contracts and enrolment, increased insurance enrolment and improved operational efficiencies.

Sun Hung Kai entered into an option agreement dated 3rd April, 2006 (as amended by a supplemental letter dated 18th May, 2006) with CLSA Capital Limited to acquire an additional 34,156,666 shares and warrants leading to the subscription of 7,056,232 shares of QHA for a consideration of HK\$11.1 million. The exercise price is HK\$2.925 per option share. This reflects the Group’s confidence in the growth potential of QHA.

### *Yu Ming Investments Limited (“Yu Ming”)*

Yu Ming, a 22.43% owned listed associate of Sun Hung Kai, reported a profit attributable to its shareholders of HK\$21.5 million. This represented a decrease of HK\$166.8 million from HK\$188.3 million of the same period of last year, mainly due to the absence of gain from property revaluations.

As at 30th June 2006, the major investments of Yu Ming were in AsiaWorld-Expo, Argyle Centre (retail shops in Mongkok), Timeplus (the new shopping mall in Causeway Bay), Ginza Plaza (retail shops in Mongkok), Grand China Air Co., Ltd. (the investment holding company in CR Airways and Hainan Airlines), Oriental Cashmere Limited (a cashmere manufacturer in the PRC), high-yield bonds and equity securities.

### *Shanghai Allied Cement Limited (“SAC”)*

SAC, a listed subsidiary of Tian An, reported a loss attributable to its shareholders of HK\$1.3 million. The turnover of, and the contribution from, its cement business and slag powder business, showed marked improvement when compared to the corresponding period of previous year. Barring unforeseen circumstances, it is expected that SAC should report an improved performance for the full year.

## **Employees**

The total number of staff of the Group at 30th June, 2006, was 2,054 (at 31st December, 2005: 2,098). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

## **BUSINESS OUTLOOK**

The current high interest rate environment, high fuel prices and the recent adjustment and control policies imposed by the Mainland Government are factors concerning the Board. However, the Board believes that the Group’s financial services and property investment and development businesses both in Hong Kong and Mainland China are sound and the Board will strive to develop and improve these underlying businesses for the benefit of all shareholders.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30th June, 2006, the Company has applied the principles of, and complied with, the code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

### **Code Provisions B.1.3 and C.3.3**

Code provisions B.1.3 and C.3.3 of the CG Code stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the remuneration committee (the “Remuneration Committee”) adopted by the Company are in compliance with the code provision B.1.3 except that the Remuneration Committee should review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to Directors and senior management under the code provision).

The terms of reference of the audit committee (the “Audit Committee”) adopted by the Company are in compliance with the code provision C.3.3 except that the Audit Committee (i) should recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditors to supply non-audit services; (ii) only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has discharged its duty to have an effective internal control system; and (iii) can promote (as opposed to ensure under the code provision) the coordination between the internal and external auditors, and check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced.

The reasons for the above deviations are set out in the section “Corporate Governance Report” contained in the Company’s annual report for the financial year ended 31st December, 2005. The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to the terms of reference adopted by the Company. The Board will review the terms at least annually and make appropriate changes if considered necessary.

On 30th December, 2005, Sir Gordon Macwhinnie retired as the Non-Executive Chairman and an Independent Non-Executive Director of the Company. Thereafter, the post of the Chairman has been left vacant as the Board is still seeking a suitable person to act as the Chairman.

The annual review of internal controls in respect of the code provision C.2.1 of the CG Code will be reported upon in the forthcoming corporate governance report to be contained in the Company’s annual report for the financial year ending 31st December, 2006.

#### **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the period under review, the Company made the following purchases of its own shares on the Stock Exchange:

| <b>Month of purchases</b> | <b>Number of shares purchased</b> | <b>Purchase consideration per share</b> |               | <b>Aggregate consideration paid</b> |
|---------------------------|-----------------------------------|---|---------------|-------------------------------------|
|                           |                                   | <b>Highest</b>                          | <b>Lowest</b> |                                     |
|                           |                                   | <i>HK\$</i>                             | <i>HK\$</i>   | <i>HK\$</i>                         |
| January 2006              | 3,324,000                         | 11.85                                   | 11.00         | 38,884,700.00                       |
| February 2006             | 60,000                            | 11.95                                   | 11.90         | 715,000.00                          |
| March 2006                | 28,000                            | 11.90                                   | 11.80         | 333,000.00                          |
| May 2006                  | 74,000                            | 20.30                                   | 20.00         | 1,483,700.00                        |
| June 2006                 | 618,000                           | 20.40                                   | 18.45         | 11,695,000.00                       |

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the six months ended 30th June, 2006.

#### **AUDIT COMMITTEE REVIEW**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30th June, 2006. In carrying out this review, the Audit Committee has relied on a review conducted by the Group’s external auditors in accordance with Statement of Auditing Standards 700 issued by the HKICPA, and on the interim results announcements of the listed associates, as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

By Order of the Board  
**Allied Group Limited**  
**Edwin Lo King Yau**  
*Executive Director*

Hong Kong, 14th September, 2006

*As at the date of this announcement, the Board comprises Messrs. Lee Seng Hui (Chief Executive), Edwin Lo King Yau and Mak Pak Hung being the Executive Directors, Ms. Lee Su Hwei and Mr. Arthur George Dew being the Non-Executive Directors, and Messrs. Wong Po Yan, David Craig Bartlett, John Douglas Mackie and Alan Stephen Jones being the Independent Non-Executive Directors.*